

Three Essays on Industrial Relations in China

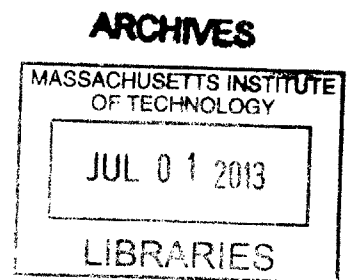
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### **Abstract**

This dissertation includes three essays. I argue in the first essay that given the weak union tradition there, alternative organizational bases for workers' mobilization and solidarity in local contexts have become an important factor for improving labor standards. Using a mixed method, including 54 in-depth interviews and a unique survey of 105 firms and 1,270 workers, this article specifies two findings: 1) despite the ever-increasing top-down regulatory efforts by the state and multinational corporations (MNCs), exploitative labor relations still exist as approximately ten percent of surveyed workers reported the experiences of labor abuses; and 2) native-place networks among migrant workers are a primary source of solidarity and have been crucial to preventing labor abuses; however, an overreliance on native-place networks reduces their salaries, suggesting an inverted U-shaped relationship between solidarity and economic opportunities.

The second essay traces the origin of the flexible and densely connected production networks among Taiwanese manufacturers to the 1970s when they entered the global apparel and footwear production. This type of coordinated production network was transplanted to southern China around 1990 and has since been well maintained there. In contrast, the bottom-up mobilization of domestic entrepreneurs in the same city began to explore the domestic market by establishing multi-layered franchisee networks to distribute their own branded apparel. Whose presence as a reference group has provided Taiwanese entrepreneurs constraints, incentives, and mindsets to pursue emerging opportunities in the domestic market. In reaction, Taiwanese entrepreneurs began to utilize another configuration of inter-firm organizations—the Taiwanese Business Association—to share the risk and cost of exploring the domestic market and to increase their bargaining power vis-à-vis local Chinese governments.

In the final essay, content analysis of 7,000 articles published in two top Chinese-language social science journals (1985-2011) suggests a lack of a large academic field of industrial relations (IR) in China, despite its rising labor problems. In general, there are two sub-spheres of a broad IR field (Kaufman 1993): human resource management scholars have focused on white-collar employees' psychological well-being, individual performance, and team efficiency; sociologists have contributed to our understanding of manufacturing workers' economic, social, and political disadvantages. An integration of both perspectives is important for the development of an IR field in China, especially given the recent state effort to establish stand-alone academic units devoted to IR research.

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CHAPTER 1

**Globalization, Local Context, and Industrial Relations in China**

### **Industrial Relations and Economic Development**

Industrial relations (IR) is an important but often overlooked field in the literature on economic development. Prior research has greatly advanced our understanding of economic development in newly industrialized countries (NICs) by examining the role of the state, cheap labor, foreign investment, and private entrepreneurs in driving economic development. The academic literature on labor problems emerging during these NICs' economic development, however, is primarily under the rubric of comparative and international labor, a scholarly camp within the dwindling field of IR. By the academic field of IR, I refer to its current conceptualization as a study of unions, collective bargaining, and labor problems of disadvantaged special groups (Kaufman 1993). Examining the linkage between economic development and industrial relations in NICs not only contributes to a better understanding of labor problems in NICs, but also helps to reflect economic growth in both NICs and advanced countries, especially in the ever-deepening global integration across national boundaries.

To be sure, global integration takes place in multiple dimensions, among which economic globalization is a primary factor that is intertwined with political, cultural and social transformations. Global economic integration is particularly relevant to industrial relations. The emergence and development of global production networks has seen the decline of manufacturing jobs in advanced countries and the rise of manufacturing centers in NICs. A primary competitive advantage of these NICs is a large population of laborers who can work at a very low wage level, either willingly or coercively. The state of these NICs has usually adopted pro-capital industrial relations in order to attract foreign capital. The state's neglect of labor rights, coupled with weak labor organizations in many NICs, has resulted in deteriorating working conditions and raised serious sustainability challenges. As summarized by Silver in her

historical account of labor movements and capital mobility, “each time a strong labor movement emerged, capitalists relocated production to sites with cheaper and presumably more docile labor, weakening labor movements in the sites of disinvestments but strengthening labor in the new sites of expansion” (Silver 2003:41).

China’s economic growth took place in such a global context when many Asian entrepreneurs encountered sustainability challenges in their home countries and were attracted to China by its friendly policies toward foreign investment. Similar to many NICs, China has adopted developmental policies to encourage an export-oriented economy in the 1980s by manufacturing for global buyers and by competing on the basis of low cost and fast delivery time. Motivated by the overarching goal of economic development, pro-capital industrial policies were implemented by the central government and local governments. It was extremely difficult for state labor inspectors to impose fines and penalties on employers for their violation of the law, because the general priority was to create a favorable investment climate (Lee 2007:20). Workers’ grievances have mounted, and have generated fundamental social and political impacts. For example, in a 2006 national representative survey conducted in urban areas, when asked to rate the extent of conflict between different groups, 45 percent of respondents agreed that the conflict between managers and workers was fierce. The employer-employee tension was rated as even more severe (58 percent).

In response to these emerging labor problems, the Chinese government passed three pro-labor laws in 2007: the Labor Contract Law, the Employment Promotion Law, and the Labor Dispute Mediation and Arbitration Law. This action signifies the state’s policy shift toward favoring labor, among other groups that were disadvantaged at the early stage of economic reform. While the long-term consequences of this policy shift deserve a separate account in the

future, in this dissertation, I treat it as an important event that reflects and reshapes industrial relations and economic development in China. Moreover, it also provides an opportunity to investigate whether and how export-oriented NICs are able to reformulate their developmental policies when encountering sustainability challenges.

Labor problems and the Chinese state's policies toward IR are by no means China-specific. Instead, they are highly intertwined with changes in the global market and society. In many respects, the selection of China as my research context serves as a case through which to examine the diffusion in NICs of globally prevailing practices, ideas, and norms that were often initiated in advanced countries. The adoption, implementation, and adaptation of various global standards by Chinese actors therefore illustrate local-global interaction.

I argue that global standards or paradigms provide a useful learning tool for China (and many other NICs) to formulate and implement its developmental policies at the early stage of global integration. However, any successful imitation must be grounded in innovation that incorporates local contexts (Westney 1987). An appreciation of local contexts is indispensable, especially when such a policy paradigm encounters sustainability challenges. This argument about local adaptation is not incompatible with the world-society argument (Meyer et al. 1997), which contends that all nation states will become similar in terms of having certain laws, implementing some policies, enforcing some rules, and establishing infrastructures, etc. While the world-society argument focuses on formal procedures or policies, usually at the initial stage of adoption, the local adaptation argument extends the observation window into long-term consequences of these adoptions.

Motivated by such a combined perspective of global integration and local adaptation, this dissertation addresses the following questions:

- 1) With regard to workers, the Chinese state's pro-labor regulation in 2007 is indeed a convergence with the worldwide diffusion of global labor standards or global campaigns for decent working conditions. In contrast to scholarly debates over the relative effects of transnational private versus state regulation, this dissertation shifts an analytic lens to the local contexts of informal labor organizations (e.g., native-place networks among rural-to-urban migrant workers). What are the effects of these informal and context-specific labor organizations on labor standards, given the presence of both transnational private and state regulation? What are the positive and negative effects of these informal labor organizations? Is there a potential integration between these informal labor organizations and trade unions?
- 2) Regarding employers in NICs adopting export-oriented strategies, many of them have relied on cheap labor to manufacture for global clients such as large apparel corporations. Facing pressure to improve working conditions from both the state and global stakeholders in the past several years, what are these employers' reactions? Are they able to move upward along the value chains? Or do they continue to chase cheap labor elsewhere? What determines their different reactions, if any? What are the consequences of these employers' choices for China and the rest of the world?
- 3) Among Chinese social scientists, a growing number have been trained at overseas universities. How does this international influence affect their research interests in and their underlying assumptions about industrial relations and economic development? What is the implication of this influence for academia in China?

Below I will introduce my arguments about these three sets of actors in the field of industrial relations. Methods, theories, and phenomena of each of the three essays (chapter 2-4) will be summarized.

### **Three IR Essays in Summary**

My dissertation, consisting of three essays, examines industrial relations in the context of China's economic development and global integration. The first essay (chapter 2) focuses on manufacturing workers and their role in improving working conditions. This essay is situated in the growing literature on global labor standards (Bartley 2007; Locke et al. 2009). The rise of anti-sweatshop campaigns in the 1990s targeted multinational corporations (MNCs), arguing that they should be held accountable for poor working conditions in developing countries, because their suppliers there and the state in those countries were unable or unwilling to improve labor standards. MNCs responded to this challenge by auditing their suppliers' labor standards. Despite MNCs' efforts, transnational private regulation has achieved only limited results. The limited effects are also found for state regulation of labor standards.

My research on labor standards trains an analytic lens on workers themselves. I argue that the top-down approach by state actors and MNCs serves as external influences; we need to bring workers back in by rediscovering their bottom-up activities and power. It is their consciousness and power that sustains a successful local implementation of external influences. In this essay, I identify an important informal labor organization, native-place networks among rural-to-urban migrant workers. These are social networks based on a shared hometown. In order to examine the effects of native-place networks on labor standards, I have compiled a unique data set, including a survey of 105 manufacturing firms and 1,270 workers and 54 in-depth interviews in southern China. The results show that native-place networks among rural-to-urban migrant



workers reduce the likelihood of labor abuses, because solidarity based on hometown identities has offered disadvantaged workers a strong weapon vis-à-vis managers. However, the effects of native-place-based solidarity include an inverted U-shaped relationship between the proportion of networked workers and their salaries because these workers are cut off from diverse information. In general, the “dilemma of embeddedness” prevalent in ethnic enclaves in the US and European contexts also exists among rural-to-urban migrant workers in China. This essay makes two theoretical contributions. First of all, it helps redirect scholarly attention to workers themselves, in addition to external stakeholders such as the state and MNCs. Secondly, it calls for renewed attention to alternative labor organizations, especially in the context of weak union activism, which characterizes many NICs’ industrial relations.

The second essay (chapter 3) focuses on employers in the apparel sector, a typical manufacturing sector by which many NICs enter the global market. The apparel sector has been analyzed as a representative of buyer-driven global value chains, through which entrepreneurs in NICs can learn experiences and eventually move up the value chains (see Gereffi et al. 2005 for a review). Apparel exporters in Taiwan are often used to showcase the success of this learning-based upgrading. They usually began by merely assembling imported inputs, moved to full-package production, and some have managed to develop their own branded merchandise and distribution pipelines. This essay traces what happened, after these Taiwanese apparel firms moved to mainland China around 1990 to seek cheap labor there, when they encountered the combined sustainability challenges of rising labor costs, increasing labor shortage, and new Taiwan dollar appreciation.

This essay explores how these Taiwanese entrepreneurs interpreted their relocation to mainland China and how they navigated the opportunities in the export versus domestic market.

In order to better explain their choices and behaviors, Chinese domestic entrepreneurs in the apparel sector in the same location were used as a contrast. This essay draws on 60 interviews with large-sized Taiwanese and Chinese domestic apparel firms in southern China. It traces the origin of the flexible and densely connected production networks among Taiwanese manufacturers, established in the 1970s when they entered the global apparel and footwear production. This type of coordinated production network was transplanted to southern China around 1990 and has since been well maintained there, which offered opportunities for these entrepreneurs to remain in the global apparel networks. In contrast, the bottom-up mobilization of domestic entrepreneurs in the same city around the same time began to explore the domestic market by establishing multi-layered franchisee networks to distribute their own branded apparel. In the current context of intensified labor regulation, and hence rising labor shortage and wage rates as well as currency appreciation, domestic firms are relatively better off. The existence of this group of domestic entrepreneurs as a reference group has provided Taiwanese entrepreneurs constraints, incentives, and mindsets to pursue emerging opportunities in the domestic market. As a reaction, these Taiwanese entrepreneurs began to utilize another configuration of inter-firm organizations—the Taiwanese Business Association—to share the risk and cost of exploring the domestic market and to increase their bargaining power vis-à-vis local Chinese governments.

The third essay (chapter 4) examines the contemporary work on IR by Chinese social scientists. Drawing on extensive coding of archival data and more than 7,000 articles, this chapter reveals that IR research has been evolving away from labor problems instead of following the subculture of practitioners who deal with such problems (Barley, Meyer and Gashi 1988). For example, despite the context of rising labor unrest in a large population of manufacturing workers, it is the white-collar employees' psychological well-being, individual

performance evaluation, and their team efficiency that characterizes the content, settings, and theories of management scholarship in IR. This focus cannot be attributed to occupational competition over professional jurisdiction (Abbott 1988) or the generic globalization of academic knowledge (Babb 2001), because both would have encouraged interest in labor problems. Nor is this gap caused by the Chinese state's control; sociologists in the same national context have contributed a higher percentage of studies of workers within IR journals. I argue that management scholars' departure from labor problems has been caused by an eagerness to establish a meritocratic system resulting in unselectively adopting the template of US business schools. In contrast, sociologists have maintained a balance between their science-building efforts toward a US system and their problem orientation, which is rooted in this discipline's own evolution in China. This essay not only advances our understanding of labor problems and professionalization of social sciences in China, but also reflects the global development of the academic field of industrial relations.

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## CHAPTER 2

**Bringing Workers Back In:****Native-Place Networks, Solidarity, and Labor Standards in China****Abstract**

Drawing on prior literature on labor standards, social networks, and industrial relations in China, I argue that given the weak union tradition there, alternative organizational bases for workers' mobilization and solidarity in local contexts have become an important factor for improving labor standards. Using a mixed method, including 54 in-depth interviews and a unique survey of 105 firms and 1,270 workers in these firms, this article specifies two findings: 1) despite the ever-increasing top-down regulatory efforts by the state and multinational corporations (MNCs), exploitative labor relations still exist as approximately ten percent of surveyed workers reported the experiences of labor abuses; only 53 percent of surveyed firms paid above minimum wages; and 2) the unique native-place networks among rural-to-urban migrant workers are a primary source of solidarity and have been crucial to preventing labor abuses; however, similar to immigrants' ethnic enclaves in the U.S. and European contexts or the general paradox of embeddedness (Uzzi 1997), an overreliance on native-place networks reduces their salaries, suggesting an inverted U-shaped relationship between workers' solidarity and their economic opportunities. This article contributes to a new perspective of labor standards by shifting analytic lens onto informal social organization of workers and their solidarity.

## Introduction

The rise of anti-sweatshop campaigns in the 1990s has drawn much media and scholarly attention. In the context of sophisticated global supply chains<sup>1</sup> as well as the deepening business-society integration, poor working conditions have been framed as being more than a simply economic and national matter. Instead, transnational private regulation by multiple stakeholders such as transnational activist networks (TANs), consumer groups, students, and non-governmental organizations (NGOs) has forced MNCs to devote efforts to improving labor standards, especially in developing countries. At the heart of this sort of transnational private regulation are the codes of conduct adopted by MNCs, which serve as a blueprint to monitor the labor standards of their contractors and suppliers. The burgeoning third-party certification agents such as Social Accountability International (SAI) and the Business Social Compliance Initiative (BSCI) also exemplify the institutionalization of transnational private regulation (Bartley 2007). Despite the efforts, transnational private regulation has achieved limited results (see Locke et al. 2009 for a detailed summary). Scholars have recently rediscovered the power of state actors in labor standards as well as their relative effects vis-à-vis private regulation (Kim 2008; Shrank 2009; Ronconi 2010; Amengual 2010, 2012).

Although the top-down regulation by state actors and MNCs has established a foundation for and legitimated labor standards, the perception and action of workers themselves in this regard still remain as a black box. As suggested by studies of labor process and solidarity (Burawoy 1979; Fantasia 1988), it is the presence or absence of workers' awareness, consciousness, and collective actions that explain why in some contexts workers were able to

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<sup>1</sup> Global supply chains, global value chains, and global production networks are used by different scholars. Here I treat them as the same to refer to transnational cooperation and coordination among relevant economic actors. For a summary, please see Gereffi, Humphrey, and Sturgeon (2005).

defend their own rights while in others workers consented to employers' control and discipline. The lack of focus on workers themselves by scholars interested in labor standards might be caused by the following reasons. First of all, due to the sensitivity of this topic, prior research on labor standards has heavily relied on interviews with factory managers. Researchers have neither gained access to shop floor activities regarding how managers and workers react to the implementation of labor standards, nor acquired detailed quantitative data regarding the workers at the factory level. Secondly, even when valuable quantitative data become available, they usually come from a single MNC, providing information on its auditing outcomes of all suppliers (Locke et al. 2007), or from compiled statistics at the provincial level (Ronconi 2010). In rare cases, when a survey of factories was indeed conducted (Kim 2008), it relied on information from managers. It has been a challenge to match this sort of data with the information on factory-level labor force such as the composition and characteristics of rank-and-file workers. Finally, there is a theoretical gap between the growing literature on labor standards and the extant scholarship of labor process and solidarity that focuses on shop floor activities and employees themselves. Although the latter literature has become less prominent due to the waning of manufacturing employment in advanced industrialist societies, its concepts, assumptions, mechanisms, and increasing application to low-paid service sectors have accumulated theoretical insights that can enrich our understanding of labor standards in developing countries.

In order to fill in these theoretical and methodological gaps, this article employs a mixed method to address the effect of worker solidarity in improving labor standards. This research sheds a new light on workers' informal power generated through their social networks. With respect to methods and data, in addition to in-depth interviews with 54 relevant actors,

quantitative data come from a unique survey of managers and workers at 105 factories and 1,270 workers in South China, a manufacturing hub for the global market. The greatest advantage of this survey is the information provided by both factory managers and workers, which overcomes the data limitation of prior studies that either relied on several cases or on survey data provided only by managers. Supplementary to these data are archives, media discussions, and policy and legal documents. Figure 1.1 depicts the motivation and argument of this research. This article explores how workers—the actors in the receiving end of the intensified state and transnational private regulation—shape the outcomes of labor standards.

[Insert Figure 1.1 about Here]

The remainder of this article is as follows. I will first briefly review prior research on labor standards that tackles workers, existing studies of social networks, and studies of industrial relations in China. Based on this review and my fieldwork research, I argue that native-place networks among rural-to-urban migrant workers in China are similar to ethnic networks among immigrants in the U.S. and European contexts, both enabling and constraining workers, albeit in different ways. Based on a critical review of prior studies from multiple disciplines, I will propose two hypotheses: 1) solidarity measured by high proportion of workers from the same locale prevents labor abuses in a given firm; and 2) an overreliance on networks impedes diverse information and hence economic opportunities. The next section will introduce the research context and data applied to test and explain the hypotheses. I will describe the 54 interviews and a unique survey (i.e., 105 firms and their 1270 employees) conducted in South China in greater detail. The following section will present data analyses. In the concluding section, I will highlight theoretical contributions, and discuss policy implications and promising directions for future research.



### **Native-Place Networks and Labor Standards**

Although research on labor standards has yielded fruitful results, one important yet understudied stakeholder is labor, for whom various state and transnational private regulatory systems are designed. Extant research has focused on the protective dimensions of labor standards that MNCs and/or state actors use to pressure factories to limit excessive work hours and provide above-minimum wage, among other socially responsible performance measures. An emerging body of literature on labor standards, however, has shifted to an empowered participatory approach that emphasizes workers' rights (Rodriguez-Garavito 2005; Seidman 2007; Friedman 2009; Xu 2009). By an "empowered participatory approach," Rodriguez-Garavito (2005:211) refers to a set of strategies, beliefs, and techniques that encourage workers, local labor support organizations, and other local NGOs to participate in transnational private regulation. His case study shows that effective political mobilization by TANs and MNCs empowered Mexican workers, whose participation created a sustainable approach to improving labor standards. Friedman's (2009) study reveals that an overreliance on a labor watch organization headquartered in Hong Kong resulted in paternalism, whereas strategies mobilizing local worker representatives and activists in Guangdong Province led to psychological empowerment, which might foster a sustainable monitoring system in the future.

Research along this line of inquiry has tended to treat labor empowerment as an outcome rather than an explanatory factor for labor standards. Through participating in the corporate social responsibility (CSR) movements, workers transform themselves "from passive beneficiary to active stakeholder" (Xu 2009). The root cause of labor empowerment is still transnational private regulation, although a successful approach needs to incorporate local participants.

To be sure, this incomplete view of labor empowerment is related to a lack of effective labor associations in many developing countries. Organized labor is an important countervailing force vis-à-vis capital in improving working conditions. Associational power consists of “the various forms of power that result from the formation of collective organization of workers” (Wright 2000:062). Among different associational forms, trade unions are arguably the most common organizing drive for workers to articulate and act on their interests. However, as documented elsewhere, trade unions are not independent or effective organizations of workers in many contexts (Chan 1993, 1997; Gallagher 2005; Seidman 2007). Despite the lack of effective unions, other forms of associational power facilitate labor organizing. For example, churches in Guatemala played an important role in supporting worker rights (Seidman 2007). Migrant social clubs in Los Angeles nurtured social capital for mobilizing workers (Delgado 1993). It is these context-specific formal or informal social organizations that have the potential to foster workers’ collective interests and capacities when trade unions are underdeveloped.

As in many other settings, social networks, understood as informal, interpersonal connections, have become an important foundation for labor empowerment, ranging from job search to migrant workers’ survival and adaptation (Granovetter 1973; Portes 1998). Elsewhere, scholars have documented the effects of social networks in labor markets, including but not limited to information sharing, coaching, endorsement, and cultural similarity, etc. (Fernandez et al. 2000; Smith 2005). Nowhere have network effects featured more saliently than the context of migrant communities. Moving from home countries to a new land with very different languages, cultures, and social and legal systems engenders great uncertainties and risks. Each step of migration involves ethnic networks, a type of social networks based on shared ethnic identities. The migration decision itself is influenced by social networks, usually close friends or family

members. Upon arriving in a host country, ethnic networks, and often ethnic enclaves such as Chinatowns and Korean Towns, have become a transition zone for many new immigrants. Job information is usually available through ethnic networks, and job openings are often within ethnic enclaves. Social, economic, and emotional support can often be found in ethnic churches and other social organizations. Entrepreneurial opportunities become available through ethnic networks, too (see Portes 1998 for a detailed summary).

Scholars interested in labor politics have recently discovered the power of migrant workers in the era of waning union activities. Contrary to the intuitive speculation that undocumented immigrants would not engage in strikes and other forms of labor politics in fear of deportation, studies in the US context have shown that they were indeed an important group in strike participation, primarily driven by social interactions in their ethnic communities such as soccer games and shared driving to work (Delgado 1993; Kwong 1997; Clawson and Clawson 1999; Milkman 2006).

The economic, social, and political implications of migrant workers' social networks are also substantial in China, although the context suggests a different form of networks, i.e., native-place networks among rural-to-urban migrant workers. The term "native-place networks" was first elaborated as a theoretical concept and explanatory factor by Perry (1993) in her seminal work on Shanghai workers in the first half of the twentieth century, the first generation of industrial workers in China. Unlike the conventional view by Marxist and modernization scholars that "the process of industrialization is viewed as exercising a homogenizing influence over the working class and feudal distinctions disappear in a machine-made uniformity," countryside traditions do persist and act as "central organizing principles of industrial life" (Perry 1993: 11). Similar to their peers in the world history, early generations of industrial

workers in Shanghai were from the countryside. Growing up in the countryside, which was quite different from the urban factory setting, migrant workers turned to native-place identities to adjust to city life. For them, “seeking out fellow provincials for employment as well as camaraderie was an obvious and effective survival strategy in an unfamiliar setting” (Perry 1993:12). This “politics of place” also served as a foundation for skill fragmentation, facilitated by the native-place based guilds. It was the solidarity of native-place networks rather than working class consciousness that accounted for collective action (Perry 1993).

The importance of native-place networks in shaping labor capacities also characterizes the contemporary workplace in China. Perry’s (1997) own research on these contemporary migrant workers finds that the resurgence of labor protests in many factories was still based on native-place identities and organizations. Similarly, Lee’s (1999) research in a special economic zone in South China also points out the importance of native-place ties in organizing strikes: among fourteen strikes she analyzes, eight took place in factories with a high proportion of workers from the same locale and therefore forming native-place based cliques.

In a large number of export-oriented labor-intensive factories, almost all low-skilled workers come from the countryside, temporarily live in cities, send their salaries back to homes, and eventually return to their hometowns. Due to the household registration system (*hukou*), many rural residents are officially registered as permanent residents of a village unless there are other opportunities such as college admission. When they look for jobs in cities, they tend to follow the footsteps of friends, acquaintances, and family members from the same locale. As friends, relatives, family members, or simply neighbors, these workers shared strong exclusionary sentiments and solidarity that easily generated collective action.

Both factory managers and policy makers are aware of the power of native-place networks and have explored various approaches to utilizing and regulating this special social capital. At the beginning of the economic reform when labor supply was greater than the demand, employers had more resources to implement countermeasures in order to constrain the power of workers' native-place networks. The memory of the past "golden age" is shared by many interviewees:

When we came to Dongguan in 1991, it (doing business) was much easier. Everything was cheaper (compared to Taiwan), especially labor cost. Many migrant workers from the countryside were looking for jobs, and we got to pick (young workers). The supply was much larger than the demand. For example, if we had 100 positions, we usually received 300 applications (an interview with a Taiwanese employer).

When the labor supply exceeded the demand at the beginning of economic reform, it was easier for employers to monitor and even alter the dynamics of native-place networks among workers. For example, a common strategy was to assign a production line leader who was not from the same place as the production line workers. This way, the authority structure based on kinships in a village did not intervene with that in a factory, and a leader did not have to face great difficulty in exerting control on his subordinate workers. Another solution was related to the realities of native-place-based skill segregation as suggested by Perry (1993). The advantage is that even when there were several dissenters from the collar group dominated by village A, the pocket group consisting of workers from village B was less likely to follow them for a large-scale stoppage.

However, as the low-skilled labor market has become tighter in the past several years, employers now do not have much autonomy in implementing such countermeasures. Policy and media reports have described the increasing shortage of migrant workers, which have posed a persistent challenge for many labor-intensive factories in China. For example, in order to cope

with labor shortage and high turnover rates, employee referral—a human resource practice, by which current employees refer their friends and acquaintances to apply for job positions—has been widely adopted by factories, although used unselectively<sup>2</sup>. Factories adopting this recruitment strategy provide financial incentives for employees to bring new hires, usually from their hometowns. If a referred worker passes a three-month probation period, his referrer will get a referral bonus, ranging from RMB 200 to 500 (e.g., 1/19-1/4 of their monthly salaries). The detailed information from one manager offers a snapshot. It is a footwear manufacturer with about 1,500 employees and usually offers RMB 200 to 300 yuan as a referral bonus for a successful referral:

It is difficult to recruit workers. We have spent a lot on recruitment, including employee referral. We keep record: between February 8th and October 10<sup>th</sup> this year, we have already spent RMB 120,000 in referral bonuses (for recruiting about 550 new hires). [Do referrals behave better at work?] We do not have systematic data for this question. I personally do not think these referrals are necessarily better. ...But we do need people to work on our production lines (an interview with Mr. An).

In the current tight labor market, employers are trying their best to recruit workers. Although they recognize the caveat of native-place networks, they cannot afford being very careful in terms of hiring the rank-and-file employees. In addition to the labor shortage per se, there is also an increasing concern about high turnover rates, as many employers and managers are struggling with retaining workers.

We have tried everything to retain workers, but it does not work well. I have no idea about this young generation of workers. They are very short-sighted: they are willing to go to another firm for only 50 yuan (the difference in monthly salaries between two firms, about 1/40 of average monthly salary) (an interview with Mr. Chow).

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<sup>2</sup> Fernandez et al. (2000) have specified the detailed process and mechanisms of employee referral in the U.S. context. Discussions from Internet chat rooms and my interview data suggest that a growing number of firms in China use employee referral, but most of them treat it as a convenient way to recruit a certain number of new hires, regardless of their qualification.

The combined pressure of labor shortage and high turnover rate has propelled many employers to turn a blind eye to workers' solidarity nurtured through native-place networks. Rather, they often turn to these native-place ties to recruit new hires. In general, the tight labor market has resulted in a weakening managerial autonomy in the sense of disciplining workers. Furthermore, as workers have become aware of their rights and have developed skills in mobilizing their native-place fellows in launching strikes and protests, their solidarity has become a deterring factor that prevents labor abuses. When a supervisor is perceived to abuse a worker, other workers from the same locale begin to fight back. Such conflicts are often escalated into strikes. Realizing these risks, managers are less likely to engage in labor abuses. In many respects, native-place networks among workers have a deterring effect that prevents would-be labor abuse. I therefore have the following hypothesis:

*H<sub>1</sub>: at the firm level, workers' solidarity (the proportion of workers from the same locale) is negatively related to their likelihood of being abused.*

From a perspective of social groups, strong solidarity (similar to dense social networks) not only builds trust among group members, but also has social control functions (Coleman 1998; Burt 1992). It is true that native-place networks as a special form of social capital have provided multifaceted supports for rural-to-urban migrant workers in getting jobs and in adjusting to urban factory lives, but this hometown-based solidarity have impeded access to diverse information and economic opportunities in some cases. For example, immigrants become closely linked to their ethnic connections and therefore lack the vision to see a larger picture beyond their ethnic communities. Even when they perceive better opportunities outside their ethnic communities through other channels, strong social norms might prevent them from pursuing better outcomes. As summarized by Portes (1998: 16-19), the same strong ties among group members maintain a

clear boundary between the in-group and out-groups. This boundary prevents outsiders from joining the group and inhibits group members from pursuing emerging opportunities. The strong social norms shared by group members create the demand for conformity. The caveat of dense social networks therefore confirms the age-old dilemma between community solidarity and individual freedom (Simmel 1964).

The similar dilemma features among rural-to-urban migrant workers in China. Dense native-place networks help them fight against labor abuses, because they constitute a cohesive group looking after each other. However, the linear (negative) relationship between solidarity and the likelihood of labor abuses does not hold true in the context of economic opportunities. Many migrant workers were brought to cities by their hometown fellows and stay closely with them. Without diverse knowledge from alternative sources, they are not aware of some better opportunities. One interviewed manager explicitly commented on the managerial benefits of employee referral based on native-place networks:

The best recruitment method is to ask our workers to bring their fellow villagers directly from their hometowns. As newcomers [to urban industrial lives], they have little knowledge of good or bad jobs. For example, the workshop in electronic firms is better than our apparel firms; it is clean and has air conditioning. If they know that, they might reconsider their decision [to work with us], although salaries are similar.

Similar to “the paradox of embeddedness” (Uzzi 1997), when migrant workers first come to cities, they have little knowledge of urban labor markets and heavily rely on their native-place networks for employment opportunities. For them, compared with blind search, jobs channeled by native-place networks are usually better paid. However, after these migrant workers have settled down, they begin to accumulate skills and tacit knowledge of handling supervisors and colleagues. If they are still heavily involved and even exclusively associated with hometown fellows, it is very likely that they will not gather diverse information from others who might



know better paid jobs or career opportunities elsewhere. Even when a worker realizes better economic opportunities, he might be afraid that his fellow villagers in the current factory are not supportive of his relocation to another firm. His worries have two reasons. First, his hometown fellows might consider him as not belonging to their social circle by having a different rationale. Second, he is afraid that he might not get the same protection from native-place networks in another firm.

Moreover, beyond the mechanisms of redundant information and social control, the high turnover rate has become a vicious circle between employers and employees. Without a promising future, skill training, or a clearly-defined career ladder, many young workers do not stick to an employer. Instead, they tend to move between employers for a slightly increased salary, which often is not delivered. This kind of turnover is often facilitated by native-place networks. The “culture of chasing whatever is currently available” has resulted in “an ill-functioning compensation system” (interviews), in which workers are not paid well and employers do not get skilled and committed employees. In many respects, the dynamics of native-place networks at the firm level therefore create “the paradox of embeddedness,” which leads to the following hypothesis:

*H<sub>2</sub>: at the firm level, workers’ solidarity (the proportion of workers from the same locale) has an inverted U-shaped relation with their economic opportunities.*

In short, although trade unions are usually ineffective for organized labor in some contexts, other informal institutions may serve as a foundation for workers’ interests and collective action. In the ongoing industrialization process in China, native-place networks among rural-to-urban migrant workers constitute such an informal social organization for labor capacities. Dense networks protect workers from being abused, but after a threshold, too densely

connected hometown fellows constrain each other in terms of pursuing economic opportunities. This caveat of social networks has different implications for labor standards.

### **A Note on Private and State Regulation**

As mentioned before, TANs, NGOs, and MNCs have all participated in the anti-sweatshop campaigns in an attempt to improve working conditions in China. For example, according to official data, by the end of 2010, 368 facilities (factories or firms) in China were accredited by SA8000 standards, ranking third in all 66 audited countries. Many other certification systems have been launched in China such as BSCI, WRAP, EICC, ISC, and WCA. In addition to the proliferating third party certification systems, many MNCs have also hired local Chinese auditors or dispatched compliance officers from headquarters to examine their suppliers' labor standards. Based on a national survey of firms in 2006, 65.5 percent of firms (N=332) producing for large MNCs reported that their clients had labor standards requirement. My interview data and archival data available through online platforms of recruitment intermediaries indicate an ever-increasing need for compliance officers and compliance consultants. Many human resource and production managers have discussed and debated over their understanding, confusion, and coping strategies of labor standards. Several themes emerge from their discussions and comments. First, it seems that labor standards auditing has become a prevalent practice for export-oriented firms. Secondly, MNCs' regulation has reminded less effective because some do not take it very seriously but use this opportunity as a bargaining strategy to cut prices (interviews with managers). Third, even though some MNCs do treat labor standards as an important concern, because they are unable to penetrate into factories to monitor the day-to-day management, their regulation becomes less effective. Finally, the poorly-trained labor inspectors are less capable of offering constructive feedbacks, but function as a police

officer issuing a fine. All these factors suggest a complicated process and hence inconclusive results pertaining to private regulation. Instead of generating a specific hypothesis here, I will examine and discuss the effects of private regulation on labor standards in the following section.

With respect to the state regulation, both the autonomous goals of state actors and their capacities affect the legislation and enforcement of labor standards. For example, empirical research has found that the number of labor inspectors per capita and their capabilities are positively related to firms' compliance with labor standards (Schrank 2009; Piore and Schrank 2008; Ronconi 2010). The rise of China is marked by the heavy hands of state actors that promote economic growth (Oi 1995). The enforcement of labor legislation is at odds with economic growth-centered policies (Choi 2003; Gallagher 2005; Lee 2007). Labor officials as state actors have reported extreme difficulties in imposing fines and penalties on firms for violation of labor standards. Their primary role is to educate employers on the labor laws instead of regulating them (Lee 2007:20). As summarized by Gallagher (2004:20), "The combination of these economic pressures of firms [just-in-time production, low cost, etc.] with the developmentalist orientation of local governments under regional decentralization produces an environment conducive to labor exploitation, with a concomitant lack of emphasis on labor conditions and workers' rights."

The governmental neglect of exploitative labor relations continued until the 1990s, when a large number of strikes and walkouts of workers in foreign-invested enterprises (FIEs) gained attention from China's central government (456 disputes per 100,000 workers in FIEs in 1999). Workers' grievances and protests have the potential to escalate into large-scale collective actions by mobilizing both urban and rural residents. In a 2006 national representative survey<sup>3</sup>, when

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<sup>3</sup> 2006 Chinese General Social Survey (CGSS 2006).

asked to rate the perceived extent of conflict among different groups, 58.2 percent (the number of respondents was 6,013) agreed that the conflict between industrialists and workers was very fierce. Additionally, there was a surprising labor shortage in 2004 (10% decrease in migrant workers in Shenzhen). Given the increasing rural-urban income disparity (Huang 2008), worker shortage is beyond economic underpinning. Instead, it is the issues of unpaid wages and rampant labor abuse that explain labor shortage. State actors began to allocate more resources to address the issue of labor standards. China's Ministry of Labor and Social Security has been helping workers obtain unpaid wages since 2005. The year 2008 marked a dramatic policy reversal, as a number of pro-labor laws took effect (Labor Contract Law, Labor Dispute Mediation and Arbitration Law, and Employment Promotion Law). The Labor Contract Law regulates agency employment and stipulates the responsibilities of both labor agency firms and client firms to protect agency workers. The other two laws directly tackle the essentials of labor standards. For example, Labor Dispute Mediation and Arbitration Law and Employment Promotion Law streamline case-handling procedures and allow workers to bring cases against their employers to the courts free of charge.

Despite the increasing resources allowed to labor standards, a critical caveat exists: state labor inspectors are understaffed. Lacking the detailed number of firm vis-à-vis labor inspectors in a given area, secondary sources of information suggests that the rationale of state labor regulation is to focus on those firms with reported problems. According to this explanation, government labor inspection might be negatively related to firms' compliance with labor standards, which is opposite to the enforcement—improvement logic. Given the complicated relationship between state regulation and firms' compliance with labor standards, I leave this issue open to empirical data instead of generating a hypothesis specifying the detailed causality.

### Research Setting, Data and Methods

This article employs a mixed method. On one hand, it takes advantage of a unique survey that incorporates information provided by both factory managers and workers. Extant research on labor standards has either relied on case studies or on survey data provided by a single MNC or by factory managers only. The former approach provides insights into the mechanisms of how different stakeholders interact to improve labor standards. Based on a survey of 105 factories, this research could test arguments developed from prior case studies. Empirical data collected from workers could address the reliability of information provided by factory managers, who have an interest in overstating their compliance with labor standards.

On the other hand, in-depth interviews with relevant actors constitute another important data source. The interviews were conducted in October and November, 2011 and March 2012 in China. Altogether I conducted 54 semi-structured interviews in Guangdong and Zhejiang, two provinces that are both located on the coast, have comparable economic performance, and host a large number of private entrepreneurs. In both provinces, I chose a typical city<sup>4</sup> as a primary research site because it is a manufacturing hub for footwear and apparel purchased by large MNCs. With the rapid economic growth, both cities have relied on a large number of rural-to-urban migrant workers as their labor force. Most of these workers are from underdeveloped regions and live on factory-subsidized dorms. Their lives are surrounded by hometown fellows in a very disciplinary factory setting. Both cities have experienced intensified labor regulation by the local governments and MNCs.

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<sup>4</sup> I chose Dongguan in Guangdong province and Yiwu in Zhejiang province as two fieldwork settings. These two cities are two typical examples of economic features of the two provinces. Although there are within and between-province differences, in this article, I go beyond the nuanced divergences but proceed to examine the similarities encountered by firms in the context of intensified labor regulation.

In order to examine how different social actors have engaged in the labor standards campaigns, I focused my interviews on firms manufacturing apparels and footwear primarily for global retailers, manufacturers, and brands. Located at the bottom of global supply chains, these factories' labor standards are regulated by both MNCs and the Chinese state. I specially recruited an equivalent numbers of foreign invested enterprises (FIEs) and domestic firms for interviews, in an attempt to rule out the ownership biases.<sup>5</sup> In order to better understand whether labor standards are sector-specific, I also interviewed several electronic firms. In addition to firms, I arranged interviews with relevant government officials in charge of labor regulation, labor standards auditors, NGO leaders, and scholars interested in relevant issues. In sum, I conducted 54 interviews with relevant players in these two cities as well as in Beijing<sup>6</sup>. At the firm level, interviewees were usually the firm owners, production managers, or human resources managers. Access to interviews was channeled by different connections. Local government officials, scholars, business association leaders, friends who have friends working as factory managers, and journalists all helped to reach to interviewees. I wrote a one-page introduction in Chinese, with my name, school affiliation, contact information, and research interest. For research interest, I drafted a general description, indicating that I understood the difficulties faced by firms such as increasing labor cost and intensified labor regulation, and I was interested in their strategies to cope with these challenges. During interviews, after a warm-up conversation, if the interviewees did not mention information related to labor standards, I asked them for it. Most interviews lasted between one hour and one hour and a half. The

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<sup>5</sup> Despite waves of restructuring efforts, state owned enterprises (SOEs) in China have carried on many welfare functions they undertook in the socialist era, including labor standards. In addition, due to the SOE reform in the 1990s, most SOEs are now large enterprises in less labor-intensive sectors. It is not an ideal setting to examine the compliance of labor standards. I did not include these firms in my interviews.

<sup>6</sup> Some large NGOs are located in Beijing.

interviews were organized to ask the following questions: 1) their personal backgrounds; 2) their practices and understanding of labor standards; 3) local labor market situations; 4) their interactions with other relevant actors; and 5) the effects and consequences of labor standards. Supplementary to the survey and interviews are policy reports, labor laws and decrees, firms' disclosures of their compliance with labor standards, and content analysis of media discussions pertaining to labor standards.

### **Summary of Survey Data**

The quantitative data come from a unique survey of factory managers and workers in China's Guangdong province at the end of 2010. Using information provided by workers, I am able to make sense of their perspective regarding whether their factory complies with labor standards and to what extent it does so. The sampling strategy has several important criteria. First, the 2010 survey selects five cities in Guangdong province<sup>7</sup>, trying to control the similarities and differences at local levels. Second, the survey covers medium-sized firms, most of them having more than 300 employees. Finally, the survey concentrates on a few highly export-oriented industries: consumer electronics, apparel, footwear, toys, and other manufacturing sectors.<sup>8</sup>

To the best of my knowledge, the 2010 survey provides the best available data to examine factories' compliance with labor standards. Although not entirely randomly chosen, the selection of 157 factories in five cities did follow a reasonable criterion. The five cities in Guangdong province were quite representative in terms of their primary sectors, local institutions,

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<sup>7</sup> These cities are Shenzhen, Zhongshan, Dongguan, Foshan, and Huizhou.

<sup>8</sup> In addition, the arising wholesale and service sectors have become an important base for employment, which are also included in the survey. For the purpose of this article, however, I only include those manufacturing firms that are primary targets of state and transnational private regulation.

and developmental levels. To construct a list of surveyed firms, labor standards were taken into consideration. The social accountability 8000 (SA8000) is a measure of labor standards and had been certified to nearly 400 factories in China by the end of 2010 when the survey was launched. A list of SA8000 certified factories in these five cities constitutes an important source of sampling, generating about half of the surveyed firms. In addition to these factories, lists of industrial association members are used to draw another half sample. Although not entirely matched pairs, the two sources of sampled firms do share several similarities such as size. I do not claim the 2012 survey is a randomly selected sample, but use it as the best available data of how factory level dynamics affect the compliance with labor standards. After the sample selection, a research team from Peking University went to the 157 factories, introduced and accompanied by local government officials. All factories accepted the survey request. When respondents filled in questionnaires, government officials were not present. Researchers were with the respondents in a conference room, explaining the questions to them. The influence of government officials was mainly in getting access to firms, but not much in the confidential content provided by research respondents.

The survey data include rich information from two levels. At the firm level, 157 factories were surveyed. Within each factory, on average, four managers in charge of different functions (e.g., human resource, finance, marketing, and production) were asked to fill out the same questionnaire separately. Their answers to the same question differ in some cases. For example, Human Resource managers might have better knowledge of unions, whereas finance managers are more likely to be accurate on firms' economic performance. Specifying the data provided by different managers from the same firm follows several criteria: 1) knowledge expertise (e.g., HR managers know better of unions); 2) the majority rule; and 3) average (e.g., number of



employees). In general, at the factory level, questions about founding histories, founders, clients, and compliance with labor standards were asked.

At the worker level, within each factory, on average, forty five employees (a total of 7,712 employees in 157 firms) filled out a questionnaire regarding their experiences outside and inside the workplace. To be clear, the selection of these 45 employees was not random in the sense of choosing from a complete roster. When the research team arrived and explained their request to factory managers, they asked the managers to try to randomly select workers from production lines. The selected workers were led to a conference room without the presence of managers or government officials. The research team then instructed workers to fill in the questionnaires. Given that a large proportion of migrant workers live in gated factory communities and their nature of being unregistered temporary residents, it is not realistic to have an accurate and complete list of workers to construct a random sample. Compared with prior research on migrant workers that has relied on convenience sampling by randomly approaching people on street, the method used in the 2010 survey is better, although still not perfect.

The survey filled out by employees has two versions: part A and part B, each focusing on a different set of questions but both including basic information such as wage, income, work hours, and welfare benefits. For both parts, employees from various ranks were selected to participate in the survey. Interested in labor standards, I only select those who identified themselves as workers, as opposed to technicians and lower-level managers (e.g., production line supervisors). I use data from part A of the survey that address important issues of working conditions. The number of workers from a factory who filled in part A survey varies. Because I use the information provided by them to indicate a factory's working conditions, I adopt a cut point of five. If less than five workers from a factory filled in the part A survey, I believe the

number of workers is too small to indicate a factory's labor force and drop these factories from data analysis. Additionally, in some firms, managers did not provide enough information on some key variables, and I exclude these firms, too. To summarize, the data used in this article include 105 factories and 1,270 workers after dropping observations that do not meet analytical criteria.

The primary unit of analysis is factory. For each factory, I use information reported by managers representing their factory. For the data provided by workers within each factory, for some dummy variables (1=yes; 0=no), I calculate the percentage of workers who reported "yes" on a specific question. For variables of other types, I calculate the mean.

## **Measures**

Prior research on labor standards seldom employs survey data. In rare cases, quantitative data are available, but mainly through compiling archives, firm documents, or macro-level statistics (Locke et al. 2007; Ronconi 2010). To the best of my knowledge, Kim's (2008) research on Vietnamese factories tackles some issues but not very much relevant to the labor force composition at the factory level, a key argument of this article. In many respects, there exists no well-established measurement of relevant variables in quantitative research on labor standards. By incorporating what Kim (2008) and others have accomplished, below I will elaborate how I construct key dependent, independent, and control variables.

### *Dependent Variables*

Labor standards include many detailed specifications such as child labor, freedom of association, minimum wage, and safety issues, to name a few. Not all aspects of labor standards are equally implemented. Factory managers have knowledge of what is flexible and what is strictly enforced, and they usually do not contest or violate the latter. Child labor is such a

highly regulated area and does not yield much profit for firms. Almost all interviewed managers admitted that it was not for their interest to hire under-aged employees<sup>9</sup> and sometimes they were the victims of child labor, too. The interview with Mr. Hu illustrates this point: During a client's labor inspection, one employee was found below age sixteen, who entered the factory using a fake identification document. The labor auditors immediately reported to the client in order to withhold business relationship with the audited factory. In addition, they specified a plan for the factory to make changes: the factory dispatched its human resource manager and staff to bring the under-aged employee back to his hometown, paying his tuition and fees to go back to school. This entire process was videotaped and shown to the client to resume the business relationship.

In addition to child labor, another relatively well-enforced labor standards include health and safety concerns. For one thing, workers themselves have become aware of hazardous work environments and demanded protection. For another, such aspects of labor standards are relatively easy to improve. Miss Zhang made this point in her interview: "it is easy to change hard environments. For example, when a labor auditor said we need to install a more powerful gas outlet, we did it the next day. But it is very hard to change soft environments." Competition pressure of "just-in-time" delivery from MNCs, combined with ineffective factory management, causes excessive work hours. Overtime work under enormous pressure often leads to disputes over wages and labor abuses (Lee 2007). Using the 2010 survey, I am able to examine factories' compliance with labor standards in labor abuses and minimum wages in greater detail.

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<sup>9</sup> According to Labor Law in China, employees under age 16 are regarded as child labor. Firms found to hire child labor are subject a wide variety of regulation and punishment including paying school tuitions until he or she reaches age 16. Between age 16 and 18 is a transition period. Employees in this age group can only work in certain occupations and environments. Many MNCs' regulation in China is consistent with Labor Law in terms of defining child labor.

**Monthly Wages:** The regulation of minimum wages in China was implemented in 1994, although less effective in the 1990s and early 2000s. In the past several years, however, both the state and transnational private regulation of minimum wages has intensified. Not only has the increase in minimum wage achieved a higher growth rate, but also the awareness of this regulation has become prevalent. Figure 1.2 shows the increase in minimum wages in two cities where I conducted interviews.

[Insert Figure 1.2 about Here]

Because income information is very sensitive and ambiguous, it is often less transparent to researchers. In order to overcome this limitation, in the 2010 survey, workers were asked several questions about their income: the lowest monthly salaries a worker had ever received in the focal factory, the highest monthly salaries, salaries from the last month, and annual salaries of the past one year. Because the data on annual salaries are not in good quality,<sup>10</sup> I construct average monthly salaries using the mean of the highest, lowest, and last month salaries.

**Labor Abuses:** In addition to economic disputes, labor abuse is another important issue. Workers' dignity is by no means less significant than economic matters. In the 2010 survey, workers were asked to report whether they had experienced, seen, or heard of others in the focal firm encountering physical, verbal or sexual abuse, forced labor, intimidation, body search, restraint of freedom, or being beat up. Altogether, eight commonly perceived labor abuse behaviors were reported. For each factory, I calculate the percentage of workers who reported their experiences of any of these eight labor abuse behaviors. I create a variable *labor abuses* to measure the extent of firms' violation of labor standards.

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<sup>10</sup> I suspect there are two reasons. First, some workers misunderstood this question as asking how much they received last year from the focal firm. In that case, for those who stayed in the firm less than a year, their reported annual salaries are not for the total summary of 12 months. Second, some workers misunderstood this question as asking for average monthly salaries. Because of these inconsistent answers, I do not report data based on self-reported annual salaries.

### *Independent Variables*

***Solidarity (% Networked Workers):*** As elaborated above, a significant factor influencing labor standards is workers themselves. Their capacities, solidarity, and consciousness constitute an important power of enforcing labor standards. In the Chinese context, unions are ineffective organizing drives for workers. Instead, a large number of rural-to-urban migrant workers and their native-place networks supplement the missing organizational links. In the 2010 survey, information on native-place ties is available. Workers were asked to check whether they maintained frequent contacts with their friends, family members, or acquaintances from the same village in their workplace. I use the percentage of workers reporting they maintained frequent contacts to measure workers' solidarity in a factory, % *networked workers*. In order to test the inverted U-shaped relationship between network density and the likelihood of getting paid above minimum wages (H<sub>2</sub>), I create the squared term of this variable, too.

### *Labor Standards Related Control Variables*

***Private regulation:*** In the 2010 survey, detailed information on MNC clients that request labor standards was inquired. Moreover, because almost all firms in the survey were subject to MNCs' audits, a dummy variable of whether clients required labor standards loses its meaning. Instead, based on the rich information, I create a continuous variable—the percentage of transactions with auditing clients—to measure the power of transnational private regulation, *Private regulation*.

***State Regulation:*** In the 2010 survey, the number of government labor inspections was asked. Because a number of firms reported 0 on this question, I create a dichotomous variable state regulation, for which more than one visits by government labor inspectors are coded 1, meaning the presence of government inspection. The reason I choose “1” as a cutting point is

because usually there is a routine examination by local labor bureaus. In this regard, “1” means a routine check instead of a specific examination for firms with reported problems.

#### *Other Firm-Level Control Variables*

**Size:** I use the number of employees as a measure of a firm’s size. The distribution of the number of employees is skewed. I take the logarithm of the number of employees.

**Profit:** Managers were asked to report the percentage of profit as the total sales income from a previous year. I use this information to measure a firm’s economic performance *Profit*.

**Ownership Structures:** because the survey was conducted in Guangdong, where a majority of firms are foreign-invested or joint ventures with foreign partners. For the 105 firms used in data analyses, there are no state-owned enterprises (SOEs). I therefore create a dichotomous variable *Foreign*, with value “1” indicating that a firm is FIE, whereas “0” meaning a firm is privately owned.

**Sector:** Prior research (Bartley 2005, 2010) suggests that global supply chains in the apparel and footwear sectors are more dispersed than those in the electronics sector. In line with this concern, I create three dichotomous variables to control for sector effects: *Electronics*, *Apparel* (including footwear and apparel), and *others*.

**Firm age:** In the survey, the founding year of firms is available. In order to control this information, I subtract a firm’s founding year from 2010, the year the survey was conducted.

**Working hours:** In the survey, workers were asked to report separately, on average, how many official hours and overtime hours they worked per day, and how many days they took off from work per month. Using this information, I calculate the total hours a worker worked per month ((official hours per day + overtime hours per day)\* total days worked per month). The

average work hours reported by workers from a firm represent the firm level monthly work hours. I took the logarithm of the workers' average monthly work hours at the firm level.

### **Empirical Findings**

Despite the intensified state and transnational private regulatory efforts, exploitative labor relations still characterize the workplace in China. Table 1.1 reports wages and work hours. On average, workers had to work 8.5 hours as a regular shift on a daily basis. In addition, they contributed 2.7 overtime work hours per day. The workload of 11.2 hours per day was further intensified as workers only took 4.2 (30-25.8) days off per month. On average, they worked 289 hours per month, for which they were paid RMB 1,939. Comparing their hourly salaries with the legally specified level of minimum wages, only 53.3 percent of firms (N=105) offered above-minimum wages.

[Insert Table 1.1 about Here]

[Insert Table 1.2 about Here]

Column 1 in Table 1.2 presents data at the individual level without grouping workers into factories. For example, of all the 1,270 surveyed workers who filled out the part A questionnaire, 27.7 percent reported that they experienced verbal abuse and 9.4 percent had experience of forced labor. Column 2 displays the data at the firm level by first grouping individuals into their respective factories and then calculating mean of the firm-level percentages. For example, on average, 9.4 percent of workers in a surveyed firm had experiences of forced labor. Column 3 reports the percentage of firms where at least one surveyed worker reported the experience of labor abuse. For example, out of 105 firms, 62.9 percent were revealed to have forced their employees to work.

In order to examine how various factors affect firms' compliance with labor standards, I report results of several regression analyses. Table 1.3 is a summary of variables used in regression analyses. Table 1.4 is the correlation matrix between these variables.

[Insert Table 1.3 about Here]

[Insert Table 1.4 about Here]

Because the distribution of the two dependent variables (e.g., monthly wages and percentage of workers with experience of labor abuses) and the key independent variable (e.g., percentage of workers maintaining regular contact with native-place fellows in the work place) is highly skewed, it does not fit the assumptions of ordinary least square (OLS) models. I use quantile regressions (median) in which the median are a better measure of workers' solidarity and power rather than the mean. The results generated through this model are relatively robust against outliers and that the likelihood estimators are in general more efficient than least square estimators. Table 1.5 reports statistical results using quantile regressions (using median) to predict the percentage of workers being abused.

[Insert Table 1.5 about Here]

Model 1d is a full model, taking into consideration of factory level statistics, the relevant factors that have been discussed by the prior research on labor standards, and native-place networks. As predicted by hypothesis 1, the high proportion of workers contacting their native-place fellows on a regular basis signals strong solidarity, which, as a countervailing power, makes less workers being abused in the workplace. The squared term of this variable is not significantly related to the likelihood of labor abuses, suggesting that a curvilinear relationship is not statistically significant in this context.



In Model 1d, the coefficient for the state regulation is positive, although it is not statistically significant. This result, however, is not necessarily counterintuitive. In spite of the intensified state regulation, a major problem is a lack of staff. A local labor official interviewed provided the ratio, “*we have 25 official employees and 17 temporary employees. In our city, there are 20,546 firms. If we inspect firms on a daily basis, it will take us five years to go through all these firms.*” In order to cope with their problem of being under-staffed, state labor officials have tended to focus on those firms with reported problems. The positive sign of state regulation confirms this explanation. Figure 1.3a shows the predicted relationship between labor abuses and solidarity, based on the full model (1d).

[Insert Figure 1.3a about Here]

One caveat is the effect of private regulation. In model 1d, it is positively related to the likelihood of labor abuses, though it is not statistically significant. This pattern is unchanged when I substitute the variable private regulation with another indicator of transnational private regulation—SA8000 certification (dummy variable). Why is MNCs’ auditing power associated with a higher likelihood of labor abuses? Does it mean that MNCs’ regulation is ineffective? My interview data might suggest an explanation for this counterintuitive result. The factory managers interviewed all acknowledged the intensity of MNCs’ labor regulation and admitted that they had to devote a significant amount of time to dealing with this pressure. However, they also noticed the different toleration levels of labor auditors and therefore tailored their coping strategies accordingly. For example, managers knew that MNCs had a zero-tolerance policy toward child labor and would not knowingly permit this behavior. In addition, in the process of labor inspection by MNCs, selected workers are usually required to show their identification documents in order to prove they are not child labor. For other behaviors of labor abuse such as

forced labor or verbal abuse, however, it is been difficult for labor auditors to observe during their visits (usually one or two days). In addition, because many auditing activities are carried out by auditors located in large cities and usually hired by MNCs, a lack of contacts or feedback mechanisms between workers and labor inspectors further suggests that private regulation in preventing labor abuses.

[Insert Table 1.6 about Here]

Table 1.6 presents quantile regressions predicting monthly wages at the firm level. Consistent with hypothesis 2, controlling for all firm-level characteristics such as size and profit, there is an inverted U-shaped relation between workers' solidarity and their economic opportunities measured by monthly salaries. It means that beyond a threshold, an overreliance on native-place networks might make workers unknowingly settle with relatively lower payment. The state regulation, however, is negatively related to workers' monthly salaries. As explained above (Model 1d), the negative sign might indeed suggest that state regulation has tended to occur in factories with reported problems, including not offer above-minimum wages. Figure 1.3b demonstrates the predicted relationship between monthly wages and solidarity, based on model 2d.

[Insert Figure 1.3b about Here]

### **Robustness Check**

In order to further test these hypotheses, several steps were taken. First of all, since scholars have recently paid attention to women in labor movement (Milkman 2007), I also checked the robustness of the results presented in Table 1.5 and Table 1.6 by including the percentage of male workers as an additional control variable. The pattern in model 1d and model 2d remained the same, suggesting that the sex ratio of workers did not change the effects of their

native-place networks on labor abuses. Secondly, I created two dummy dependent variables: one dependent variable is whether a firm paying above minimum wages (the calculation is explained in Table 1.1), and the other is whether a firm has above-average labor abuses (e.g., 1 referring to a firm's labor abuses are above the average, 10 percent). I used these two measures to check the two hypotheses, and the results showed the similar patterns. Finally, I also ran the regressions using the OLS models. Although the results were less robust than the quantile regressions, they did demonstrate the similar patterns.

### **Conclusions and Discussion**

Complementary to prior research on labor standards that has focused on transnational private regulation, state regulation, and (increasingly) their interaction, this article shifts an analytic lens onto workers themselves. I argue that although conventional labor organizations such as unions are ineffective in many contexts, workers' informal organizations and social capital generated through their interpersonal networks constitute an important driving force for labor standards. Making use of unique survey data at the firm level (provided by both managers and workers) and supplemented by 54 in-depth interviews, I examine the effects of workers' native-place networks in Guangdong province, China.

Empirical evidence shows that despite the mounting media coverage and ever-increasing resources allocated to labor regulation, exploitative labor relations are still prevalent. As Table 1.2 demonstrates, a large proportion of workers reported experiences of labor abuse in the workplace. Given the backgrounds of intensified state regulation and MNCs' commitment, information presented in Table 1.1 and Table 1.2 is shocking. The sweatshop image is vividly pictured in Table 1.1 as workers had to work for extremely long hours for many consecutive

days (e.g., 289 hours per month) to receive RMB 1,939 as their monthly salary or \$292 (using the 2010 average exchange rate). The labor value of many Chinese young men and women was about only 1 dollar per hour.

Moreover, this disappointing reality does not improve for them even when they have accumulated experience and skills. As illustrated elsewhere (Lee 1999, 2007) and confirmed by interview data, there does not exist a career ladder internal to a factory or externally at the industry level. In addition, they are rural-to-urban migrants, whose community roots are thousands of miles away from industrial centers. In their hometowns, however, even such dead-end jobs are not readily available. Although the Chinese household registration system has relaxed in recent years, the skyrocketing price of housing in urban areas has made it impossible for workers to settle down. Therefore, a huge number of rural-to-urban migrant workers receive low salaries and are cut off from both rural and urban communities.

Despite this less than promising portrait, regression analyses showcase the importance of workers' native-place networks in improving labor standards, confirming Hypothesis 1 and Hypothesis 2. As a substitute for working-class consciousness (Perry 1993), strong connections based on migrant workers from the same locale serve as an important social organization for labor capacities. This sort of power protects workers from being abused in the workplace (Model 1d). Similar to immigrants' ethnic networks in the US context, workers' solidarity in China has an inverted U-shaped relation with their economic opportunities (Model 2d). Beyond a threshold, an overreliance on native-place networks reduces workers' bargaining power because they become cut off from alternative job opportunities.

In addition to elaborating the mechanisms of native-place networks in forging workers' solidarity, this article also enriches prior research on labor standards in testing the effect of the

state and transnational private regulation. State regulation is negatively related to labor standards. These seemingly unexpected results, however, may be explained by the selective nature of state regulation. The under-staffed local labor bureaus have adopted the strategy to focus on those factories with reported problems. In this regard, state regulation may be effective, although longitudinal data and better research designs are needed to confirm this explanation.

MNCs' regulatory power has mixed effects. It is positively related to labor abuses and hence negatively related to labor standards, but it is positively related to workers' salaries or to be more specific, increasing a factory's likelihood of providing above-minimum wages. One explanation is that labor standards are used by MNCs as a leverage to reinforce their bargaining power. This leverage functions through two different channels: one is a psychological impact and the other is blackmail. The logic of the former channel is as follows:

They (MNCs) are absolutely strict with labor standards. They have a zero-tolerance policy toward labor standards. And they will apply the same principle to quality control, delivery time and other business matters. ... If we fail to pass the labor standards, they will stick to this matter and figure out ways to cut the price" (interview with Mr. Who).

This "blackmailing" logic and its relevant criticisms emerged several times in separate interviews. I suggest that these mixed effects of MNCs' regulation might be caused by a disconnection between MNCs and workers. Most labor inspection is carried out by two auditors in only one day. Their interaction with several workers they select to interview takes place in a very short time, during which some standard and relatively easily identified questions are asked such as age, salary, and work hours. Although labor inspectors usually leave their business cards with workers for further contact, this deterring approach is less effective, mainly because labor inspectors are thousands of miles away and without administrative power (interview with Mr. Lin). In contrast, the increasingly professionalizing labor inspectors and their training have

begun to equip them with accounting, operation, and other management related skills, which help them find out how factory managers falsify data. For example, in an Internet-based chat room, a post describes a typical scenario: an experienced compliance officer noticed that a firm's outputs on Thursday, Friday, and Saturday were the same while only about half the workers worked on Saturday. The factory managers were then asked to explain the dramatic increase in productivity if they had not falsified the number of workers working on Saturday. Such successful case of specifying factory managers' fabricated information has diffused quickly among labor inspectors who then apply this knowledge in their subsequent audits.

Despite the mixed effects, the proliferation of private regulation does have influence on labor standards, albeit limited. Some famous brand names are very serious about other aspects of labor standards. According to interviewees, labor inspectors sometimes dropped by at night without notifying factory managers. By simply observing the light in dorms and production sites (usually separate but located in the same gated compound), these auditors inferred whether there was overnight work. Such transnational private regulation is indeed pertinent to state regulation in several occasions. For example, some informants mentioned that when they tried to explain to MNCs' compliance officers that some uncommon arrangements were indeed not contrary to labor-related laws, they were required to bring the local labor bureau's approval. In the case of defining overtime work and corresponding compensations, many factories adopted the strategy of reshuffling shifts. When a factory is working toward a delivery deadline, it sometimes "borrows" 10 hours from a future week, usually a week around national holidays. That way, it does not violate laws; neither does it need to pay overtime compensation. In order to make this strategy legitimate, especially in the eyes of skeptical compliance officers, a factory needs a signed document from its local labor bureau. The interdependent private and state regulation is

also illustrated by the mutual understanding that the existence of each other reduces the hostility from firms. When asked about their experience and impression of MNCs' private regulation, labor bureau officials said *"it is good for us. Now firms do not complain that we are making trouble for them. They know that it is a standard."*

In summary, this article makes an important theoretical contribution to research on labor standards. It shows fruitful results by shifting the analytic lens onto workers themselves. As displayed in Figure 1.1, prior research has focused on state and transnational private regulation from the top down. Although the pressure-response logic and empirical research following this theoretical speculation have greatly advanced our understanding of labor standards, the organizational dynamics have been largely overlooked except in a few case studies (Locke et al. 2009; Yu 2009). This research opens up the black box of shop floor dynamics, of which workers' social organization showcases the promising micro-macro linkages. In particular, this article highlights workers' native-place networks as an important organizational basis for labor capacities. Extending this new finding, future research could further specify the patterned networks among workers. For example, if 50 percent of a firm's workers come from place X and the other half are from place Y, how does the competition between these two groups influence workers' solidarity, their bargaining power, and managers' countermoves?

To be sure, there are many alternative social organizations among workers, and native-place networks are only one such example. This study is by no means China-specific. Other social organizations such as churches in Latin America (Seidman 2007) and South Korea (Koo 2000), and ethnic enclaves in the U.S. and Europe (Clawson and Clawson 1999) have all shown potential for nurturing labor movements, broadly defined. One contribution of this research is to call for an integration of the literature on labor standards and studies of social organization.

State and transnational private regulation of labor standards could serve as a political opportunity for vulnerable workers and others, who then develop into capable labor movement participants and organizers themselves.

### **Discussion**

The central role played by workers' native-place networks is by no means confined to the gated factories. The dormitory regime of rural-to-urban migrant workers (Lee 1999; 2007) has changed, albeit moderately. An alternative form of employment relations arises: labor cooperative. A group of workers (e.g., six to ten) from the same hometown with years of experience in factories quit their jobs and establish a work team independent of factories or labor dispatch agents. Unlike conventional entrepreneurial activities where former employees start their own workshops, labor cooperatives do not own manufacturing facilities. Instead of providing manufactured products, they "sell" their labor. Neither are labor cooperatives equivalent to labor dispatch agents, who employ workers and send them to factories. The former are informal social groups, while the latter are registered labor market intermediaries. Usually unregistered, such work teams are called on as temporary contractors to work in factories. They do not sign formal contracts with a factory but trust the word-of-mouth agreement. Organized through native-place networks, labor cooperatives do have bargaining power vis-à-vis factories in temporary need of skilled workers. They charge high prices for their labor and skills, usually about four times those of workers directly hired by factories. From employers' perspective, the proliferation of labor cooperatives has disrupted the compensation system and deepened the chaos in the local labor market (multiple interviews). Factory managers hoped that industrial associations and their de facto leader, the local government, could regulate labor cooperatives.



The intersection of employers, local government officials, workers, and transnational actors therefore deserves further examination.

The influence of native-place networks, however, has seen unanticipated outcomes and sometimes evolved into organized violence. When there is no institutionalized channel for migrant workers to redress their grievance, they tend to seek help from “big brothers” from the same hometown. Native-place gangs threaten to destroy factory facilities if a factory fails to meet their demands. Sometimes, the gangs even intimidate their hometown fellows who do not pay “protection fees.” Although local police are able to stop and punish such organized violence, it still incurs great economic and social cost. As summarized by local trade union and labor bureau officials, “if we do not step in, the native-place gangs will take over. Workers have no choice but to be manipulated by them. Eventually both workers and employers will suffer from the gangs.” The question then becomes how to build effective labor organizations and establish a dialogue channel between multiple players. Future research based on detailed case studies might be able to provide insights into these matters.

Contrary to the conventional view that both the global North and South have seen the decline of labor activism, the rise and diffusion of labor standards justifies a reexamination of this view. Although not often conceived as a labor movement, the compliance with labor standards is indeed a new form of large-scale labor movement integrating relevant actors across national borders, with explicit goals, targets, mobilization strategies, repertoires, action, and even hard-to-measure social movement outcomes. What have remained missing are the workers themselves, for whom the campaign of labor standards is launched. It is the participation, learning, and self-transformation of the rank-and-file workers that sustain labor movements and potentially avoid the dilemma of oligarchy, an often-cited consequence of organized labor and

social movements in general. Future research could follow this direction by examining how workers understand, interpret, contest, and act upon legal and transnational private regulation of labor standards in their daily routines.

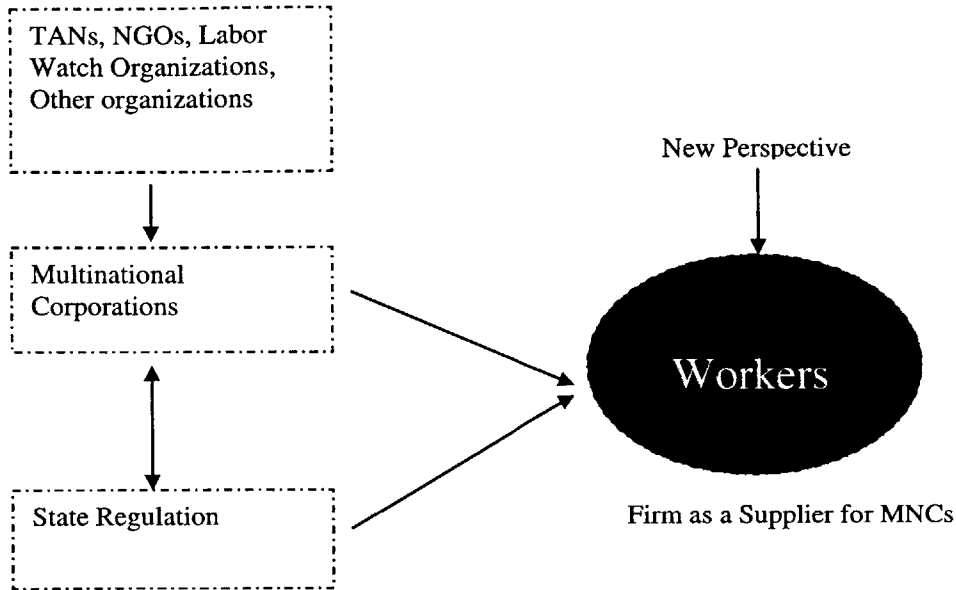
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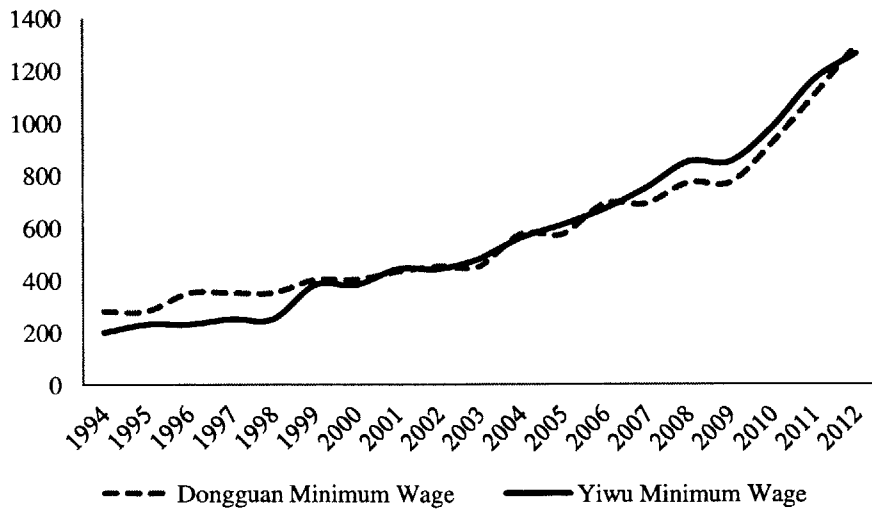
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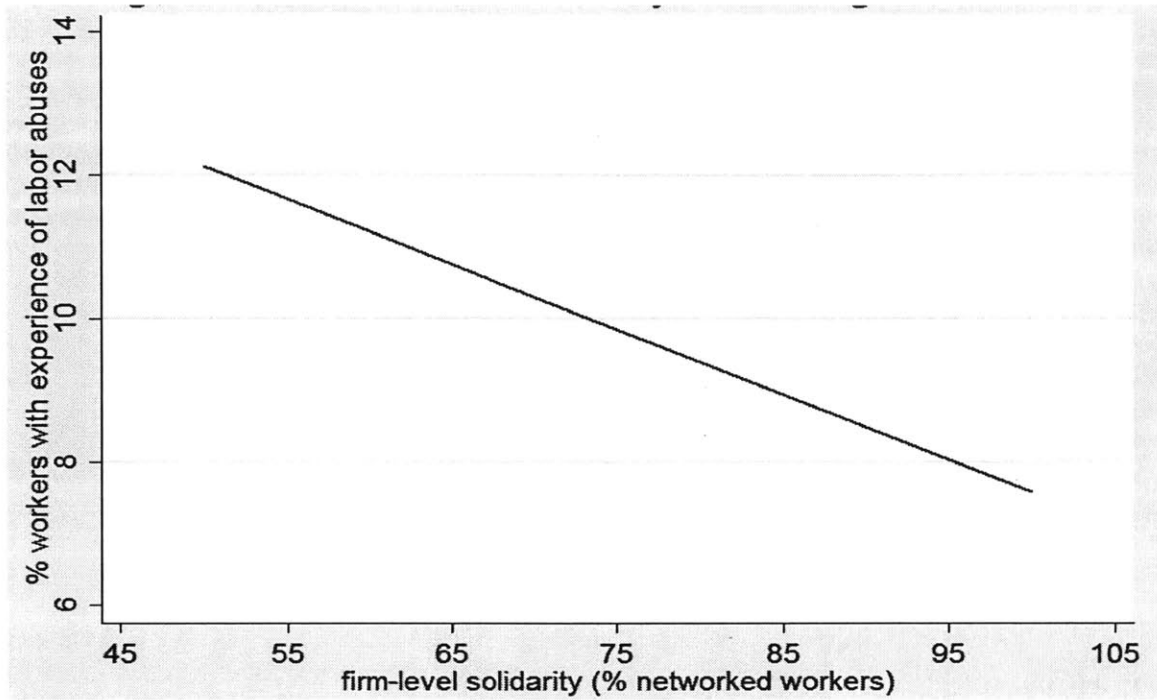
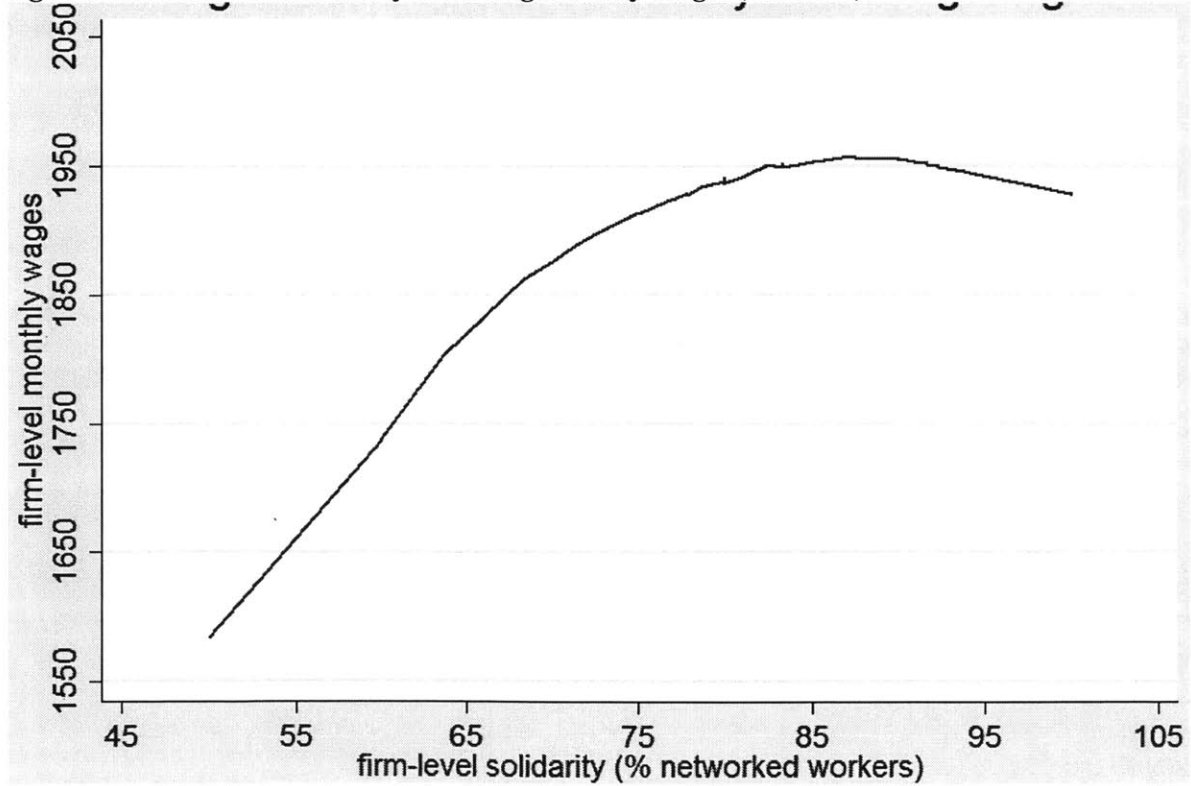
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**Figure 1.1: Theoretical Layout: Workers as the Actors of Labor Standards**



**Figure 1.2: Minimum Wage in Two Cities**



**Figure 1.3a: Firm-level Solidarity Predicting Labor Abuses (model 1d)****Figure 1.3b: Firm-level Solidarity Predicting Monthly Wages (model 2d)**

**Table 1.1: Workload and Income**

<b>Issues</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max</b>
Official daily work hours	8.51	0.4	7.75	10.19
Daily overtime hours	2.7	0.87	1.63	10.5
working days per month	25.77	0.77	22.45	28
Average monthly salary	1939.02	244.67	1487.13	2965.97
% firms pay above minimum wage	53.33	50.13	0	1

Note:

Information was provided by workers. They were asked to report separately, on average, how many official hours and overtime hours they worked per day, and how many days they took off from work per month. Using this information, I calculate the total hours a worker worked per month ((official hours per day + overtime hours per day)\* total days worked per month). According to the 2010 Labor Law, workers' official work hours per month are 174. I therefore create the excessive work hours per month (actual monthly work hours minus 174).

The 2010 Labor Law also specifies that overtime work hours should be paid at least 1.5 times of the regular work hours. In order to generate the billable hours per month, I multiply the excessive hours per month by 1.5 and add the product to 174 official work hours. To be sure, it is a conservative estimate of the billable hours per month. The 2010 Labor Law specifies that firms should pay twice for workers to work on weekends and three times on national holidays. Because the information in the 2010 survey does not distinguish exactly the allocation of overtime work hours between weekdays, weekends, and holidays, I adopt a conservative strategy by treating all overtime work happening during weekdays and therefore multiplying by 1.5. The average monthly salaries divided by billable hours per month equals the actual hourly payment a factory offers to its full-time employees.

Comparing this actual hourly payment with the specified minimum wages (e.g., hourly wage for full-time workers) generates one dependent variable *minimum\_wages*. It is a dichotomous variable, for which 1 means that a factory provides above minimum wages while 0 indicates that a factory fails to meet this legal regulation.



**Table 1.2: Selected Labor Abuses**

	<b>% Workers</b>	<b>Average % of workers/firms</b>	<b>% Firms with labor abuse</b>
Verbal abuse	27.68	28.21	91.43
Physical abuse	7.96	7.55	54.29
Beat up	5.63	6.4	47.62
Body search	8.9	9.14	60.95
Restrain freedom	3.46	3.78	30.48
Intimidation	8.42	8.51	60.95
Forced labor	9.41	9.68	62.86
Sexual abuse	4.47	4.73	37.14
Number of observation	1720	105	105

**Note:**

Data were reported by workers. Column 1 shows the percentage of all workers reporting they experienced various types of labor abuse. Columns 2 and 3 demonstrate labor abuse at the firm level.

**Table 1.3: Descriptive Statistics of Selected Variables**

<b>Variable Name</b>	<b>Variable Description</b>	<b>Number of observations</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
<b>Monthly wages</b>	average monthly wages received by workers	105	1939.018	244.675	1487.133	2965.967
<b>Labor abuses</b>	% workers reported experiences of labor abuse	105	9.97	6.535	0	35.135
<b>Solidarity</b>	% workers who contact their native-place fellows in the work place on a regular basis	105	83.142	10.971	50	100
<b>Private regulation</b>	% transactions with auditing clients	105	53.762	37.989	0	100
<b>State regulation</b>	Whether a firm was inspected by government labor inspectors more than once per year	105	0.448	0.5	0	1
<b>Size</b>	The logarithm of the number of employees	105	6.83	1.238	3.5553	10.127
<b>Profit</b>	% profit of the total sales	105	18.737	14.571	-0.51	85.6
<b>foreign</b>	Whether a firm is foreign invested vs. privately owned	105	0.619	0.488	0	1
<b>Apparel</b>	Whether a firm produces apparel, toys and footwear	105	0.286	0.454	0	1
<b>Electronics</b>	Whether a firm produces consumer electronics	105	0.391	0.49	0	1
<b>Firm age</b>	2010 minus the year the firm was founded	105	12.905	6.015	1	28
<b>Working hours</b>	The logarithm of the workers' average monthly work hours at the firm level	105	5.84	0.11	5.65	6.46

Table 1.4: Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11
<b>1. Monthly wages</b>	1.000										
<b>2. Labor abuses</b>	-0.156	1.000									
<b>3. Solidarity</b>	0.161	-0.139	1.000								
<b>4. Working hours</b>	-0.17	0.129	0.16	1.000							
<b>5. State regulation</b>	0.027	0.037	-0.113	-0.121	1.000						
<b>6. Private regulation</b>	0.023	-0.002	-0.045	-0.040	0.065	1.000					
<b>7. Size</b>	-0.060	-0.110	0.039	0.024	0.043	0.002	1.000				
<b>8. Profit</b>	-0.029	-0.189	0.067	0.063	-0.063	-0.018	0.187	1.000			
<b>9. Foreign</b>	0.098	-0.038	0.015	0.014	-0.004	0.407*	0.102	0.001	1.000		
<b>10. Apparel</b>	-0.068	-0.022	-0.136	-0.135	0.024	0.201*	0.077	-0.039	0.279*	1.000	
<b>11. Electronics</b>	0.198*	0.194*	0.073	0.057	-0.014	-0.291*	0.171	0.085	-0.216*	-0.506*	1.000
<b>12. Firm age</b>	-0.082	-0.088	0.028	0.014	0.110	-0.027	0.308	0.179	0.102	-0.039	0.117

Significance level (p=0.05)

**Table 1.5: Quantile Regressions (Median) Predicting Labor Abuses at the Firm Level**

	Model 1a	Model 1b	Model 1c	Model 1d
<b>Independent Variables</b>				
Solidarity (% networked workers)	-1.654** (-3.23)			-0.778* (-2.05)
Solidarity squared term	0.01** (2.95)			0.004 (1.71)
<b>Control Variables</b>				
<i>Labor Standards Related Factors</i>				
State regulation (1=yes; 0=no)		1.529 (0.78)		1.817 (1.92)
Private regulation (% transaction with auditing MNCs)		0.008 (0.31)		0.006 (0.45)
<i>Other Control Variables</i>				
Size (log of the number of employees)			-0.674 (-1.15)	-0.424 (-1.05)
Profit (% profit of sales)			-0.04 (-0.86)	-0.026 (-0.85)
Foreign (domestic private firms omitted)			0.615 (0.41)	1.816 (1.66)
Firm age			-0.106 (-0.88)	-0.196* (-2.33)
Working hours			10.55 (1.62)	7.678 (1.73)
Apparel (1=yes; 0=no)			1.334 (0.72)	0.954 (0.77)
Electronics (1=yes; 0=no)			4.047* (2.32)	3.832** (3.38)
(Other sector omitted)				
Constant	79.23*** (3.95)	7.237*** (3.88)	-48.41 (-1.28)	1.835 (0.06)
Pseudo R2	0.046	0.006	0.092	0.136
Number of observations	105	105	105	105

t statistics in parentheses

\* p&lt;0.05, \*\* p&lt;0.01, \*\*\* p&lt;0.001

**Table 1.6: Quantile Regressions (Median) Predicting Monthly Wages at the Firm Level**

	Model 2a	Model 2b	Model 2c	Model 2d
<b>Independent Variables</b>				
Solidarity (% networked workers)	49.24*			47.8**
	(2.19)			(2.84)
Solidarity squared term	-0.271			-0.272*
	(-1.93)			(-2.49)
<b>Control Variables</b>				
<i>Labor Standards Related Factors</i>				
State regulation (1=yes; 0=no)		-45.52		-4.063
		(-1.10)		(-0.09)
Private regulation (% transaction with auditing MNCs)		-0.551		0.13
		(-1.01)		(0.19)
<i>Other Control Variables</i>				
Size (log of the number of employees)			-16.21	-28.42
			(-0.77)	(-1.41)
Profit (% profit of sales)			1.803	1.859
			(1.2)	(1.31)
Foreign (domestic private firms omitted)			7.284	-32.77
			(0.14)	(-0.6)
Firm age			-0.206	0.066
			(-0.05)	(0.02)
Working hours			-317.3	-288.6
			(-1.43)	(-1.39)
Apparel (1=yes; 0=no)			36.58	57.59
			(0.58)	(0.94)
Electronics (1=yes; 0=no)			89.77	108.9
			(1.54)	(1.95)
(Other sector omitted)				
Constant	-257.6	1982.8***	3817.4**	1664.5
	(-0.29)	-50.27	(2.95)	(1.12)
Pseudo R2	0.044	0.007	0.054	0.102
Number of observations	105	105	105	105

t statistics in parentheses

\* p&lt;0.05, \*\* p&lt;0.01, \*\*\* p&lt;0.001

## CHAPTER 3

### **Network Configurations and Market Entry: Taiwanese Firms along Global Production Networks**

#### **Abstract**

Using 60 interviews with Taiwanese and Chinese domestic apparel firms in southern China, this chapter traces the origin of the flexible and densely connected production networks among Taiwanese manufacturers, established in the 1970s when they entered the global apparel and footwear production. This type of coordinated production network was transplanted to southern China around 1990 and has since been well maintained there, which offered opportunities for these entrepreneurs to remain in the global apparel networks. In contrast, the bottom-up mobilization of domestic entrepreneurs in the same city around the same time began to explore the domestic market by establishing multi-layered franchisee networks to distribute their own branded apparel. In the current context of intensified labor regulation, and hence rising labor shortage and wage rates as well as currency appreciation, domestic firms are relatively better off. The existence of this group of domestic entrepreneurs as a reference group has provided Taiwanese entrepreneurs constraints, incentives, and mindsets to pursue emerging opportunities in the domestic market. As a reaction, these Taiwanese entrepreneurs began to utilize another configuration of inter-firm organizations—the Taiwanese Business Association—to share the risk and cost of exploring the domestic market and to increase their bargaining power vis-à-vis local Chinese governments.

## **Introduction**

Many newly industrialized countries (NICs) have achieved rapid economic growth by formulating export-oriented developmental policies in their early stage of economic takeoff. From a firm's perspective, a prominent mechanism that sustains this model is to join the global production networks – coordinated economic activities linking upstream and downstream firms from different countries. Apparel production is such an illustrative case of global production networks. Many lead firms such as Nike do not possess their own factories or manufacturing facilities. For these firms, what matter most are their marketing access and brand images, which bring them high profit margins. They outsource manufacturing activities to factories, usually in low wage countries. In order to join such global production networks led by lead firms, factories in NICs compete with each other on the basis of low cost and flexible delivery. In addition, the state of NICs often has strong incentives to promote economic growth through pro-capital industrial relations. These combined incentives of firms along the global production networks and the state in NICs have resulted in deteriorating working conditions, which invites transformations in industrial relations, among other economic, social, and political changes.

In this regard, although the race-to-the-bottom thesis and its variations are addressed in this dissertation, an industrial relations system is indeed intertwined with capital mobility at a global level and an economic developmental trajectory of a focal country and firms. Since China adopted this developmental blueprint, private manufacturing firms invested in by overseas Chinese and indigenous entrepreneurs have greatly contributed to its economic growth and global integration by manufacturing apparel for large global retailers, branded marketers, and brand-name merchandisers. Similar to the experiences of many other NICs, this developmental model that relies on low labor cost and flexible delivery has encountered fundamental

sustainability challenges after three decades of economic growth in China: the combination of rising labor cost, increasing labor shortage, and RMB appreciation, as shown in Figure 2.1.

[Insert Figure 2.1 about here]

As examined in chapter 2, the intensified labor standards regulation by multinational corporations (MNCs) and the Chinese state have made manufacturing factories' labor cost grow by about 20 percent<sup>11</sup>, while the price of their manufactured products has not kept up with such an increase, if not in fact decreased by RMB appreciation<sup>12</sup>. Facing such challenges, labor-intensive manufacturers in export sectors have three alternatives<sup>13</sup>: 1) geographical relocation to low labor cost regions; 2) industrial upgrading,<sup>14</sup> understood as moving up the value chain, or 3) exit (bankruptcy or disinvestment). Prior literature has emphasized the effects of inter-firm networks on industrial upgrading (see Gereffi 1999 for a review) or firms' migration (Romo and Schwartz 1995; Guillen 2002). The network perspective is also linked to the argument regarding global production networks in terms of why some firms or regions were able to maintain growth through this mode of production.

Although there is a large and growing literature on the network perspective of global production networks and international development, prior studies have mainly focused on the

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<sup>11</sup> For example, in Shenzhen, the minimum wage was 850 yuan per month in 2007, while in 2011 it was 1,320 yuan. Although firms might design different management policies to cope with legal regulation, their actual payment of labor cost still increases. My interview data also suggest that for most firms, the labor cost alone increases about 20 percent.

<sup>12</sup> The average current rate in 2005 was 8.2675 yuan versus \$1, while this rate became 6.8128 in 2008. In 2011, the rate was 6.4588.

<sup>13</sup> To be sure, these three alternatives are not necessarily exclusive. For example, a factory could relocate to a region with abundant cheap labor and at the same time upgrade its location in production networks.

<sup>14</sup> The concept "industrial upgrading" has been widely used but not very specifically. Humphrey and Schmitz (2002:1020) briefly categorize four types of industrial upgrading: process upgrading, product upgrading, functional upgrading, and inter-sectoral upgrading. I will elaborate this concept in the following discussion.



early and successful stage of economic growth at either the firm or the regional/national level. What remains less specified is how the network structures among firms that enabled them to compete at a global level under certain circumstances counter-intuitively constrained their competitiveness in other situations. Put differently, a network perspective should be explicitly linked to a structural account of comparative advantages, which also condition a further development, when external environments (most often volatility in a changing global market) fundamentally change. In other words, a study that traces a long observation window of firms embedded in global production networks enables a reflection on the structure-agency debate.

Extending this network perspective, this chapter reexamines Taiwanese apparel firms, which have been widely acknowledged as a successful case of global production networks. By “reexamining” these typical firms, I mean a prolonged observation window ranging from their founding in the 1970s in Taiwan to the less addressed period—their relocation to mainland China in the 1990s and their current situation. With a comparison of these Taiwanese entrepreneurs themselves in two different settings as well as contrast between these Taiwanese entrepreneurs and a group of Chinese domestic apparel firms, I argue that different timings and modes of initial entrepreneurial experiences have shaped different configurations of inter-firm networks, which set in motion different accumulative routes regarding knowledge and resources. These distinct trajectories have different implications for firms, regional economies, and the global market.

I illustrate this argument through interview data from apparel firms in southern China, government officials, NGO leaders, and scholars in the field of industrial relations. Through a historical and comparative case study, this chapter demonstrates a noteworthy finding: beginning in the 1990s in the same place and operating in the same sector, a group of domestic entrepreneurs without well-developed networks with each other have established a networked

pattern of distributing their own branded apparel to the domestic market, while Taiwanese entrepreneurs have carried on their coordinated networks between each other and remained as contractors or suppliers of large global apparel firms. Facing the current challenges, especially the RMB appreciation, domestic entrepreneurs are less constrained and indeed are taking advantage of these challenges by developing their core competencies. In contrast, these challenges, encountered for the second time by many Taiwanese entrepreneurs in my study, have been pivotal for them in terms of future strategies; meanwhile, these crises indeed reinforce their intertwined networks.

The remainder of this chapter is organized as follows. Because the analysis covers an observation window between the 1970s and 2012 and from Taiwan to the mainland, I will first introduce my research setting and interview data. The following section will summarize the developmental trajectories of Taiwanese apparel firms and analyze the coordinated production networks that have both enabled and constrained them. The next section will bring into view a group of domestic apparel firms with different network structures, and investigate how the existence of this reference group, together with the changing global market, generates different opportunities and constraints for Taiwanese entrepreneurs. What follows will be a brief discussion of the changing content of the coordinated networks among Taiwanese entrepreneurs in the context of their pursuit of strategic reformulation. This chapter will conclude by discussing theoretical contributions and policy implications.

### **Research Context and Methodology**

As a hallmark of China's entrance into the global economy, Dongguan in Guangdong province has become a primary destination of foreign investment, especially from overseas

Chinese. In 1985, as a pioneering step of the FDI policy implementation<sup>15</sup>, Dongguan was approved by the central government as a special economic zone that provided extensive incentives for overseas Chinese investors. The Chinese communities in East Asia had accumulated a great deal of material wealth and managerial know-how in the 1970s and 1980s, primarily through manufacturing garments for global buyers. Similar to many other NICs, the growing labor shortage and increasing labor cost impelled them to search for alternative manufacturing sites. Low labor and land cost, pre-existing ties to mainland relatives and friends, and cultural and geographical proximity attracted their investment to Dongguan. Since first being allowed to visit mainland China in 1987, Taiwanese apparel manufacturers have developed and maintained their coordinated production networks in Dongguan, in which firms cooperate with each other to deliver products to global buyers. Besides production networks, they have also coordinated social and political capital in providing public goods through their local branch of the Taiwanese Business Association (TBA).

Drawing on the extant literature examining its growth and my own fieldwork, below I summarize the trajectory of labor-intensive manufacturing activities in Dongguan, the social and economic backgrounds of entrepreneurs there, and their ongoing strategic reorientation. Table 2.1 presents the basic statistics for the past three decades in Dongguan. The year 1978 marked its economic reform. The year 2006 was two years before the global financial crisis and also a year after the expiration of the multi-fiber agreement. The year 2010 was a recent data point indicating the economic impact of the volatile global market on this city.

[Insert Table 2.1 about here]

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<sup>15</sup> A great deal of literature has debated the root causes of China's liberal policy toward FDI. It is not a concern of the present study. My research takes the FDI liberalization and its contribution to economic growth as a given, and proceeds to examine foreign entrepreneurs' reaction to intensified labor regulation.

The primary data sources of this chapter are interviews and archives. Many available secondary survey data and aggregate statistics are also employed. The interviews were conducted in southern China in October and November 2011, and in March and August 2012. In order to understand the challenges confronted by different firms and their reactions, I purposely recruited equivalent numbers of foreign invested enterprises (FIEs) and domestic firms for interviews. In order to better understand whether the challenges were sector-specific, I also interviewed several electronic firms. In addition to firms, I arranged interviews with relevant government officials in local areas, NGO leaders, and scholars interested in relevant issues. In sum, I conducted 60 interviews with relevant players. Among these interviews, 30 were conducted in Guangdong Province, 28 in Zhejiang Province, one in Beijing, and one in Shanghai. The reason I did some fieldwork in Zhejiang is because of its similarities and differences in comparison with Guangdong province. These two provinces are both located on the coast, have comparable economic performance, and host a large number of private entrepreneurs. The bottom-up mobilization of small local rural producers in Zhejiang province has become a primary mechanism that nurtures a large number of domestic private entrepreneurs. Interviews with domestic entrepreneurs in Zhejiang Province therefore provide an additional insight to check the validity of information obtained in Dongguan, especially compared with domestic entrepreneurs there. With respect to Beijing, some large and influential NGOs and consulting firms are there. Their knowledge and reflective perspectives are helpful for understanding firms' difficulties and reactions.

At the firm level, interviews were usually with firm owners, production managers, or human resources managers. Access to interviews was channeled by different connections. Local government officials, scholars, business association leaders, friends who have friends working as

factory managers, and journalists all helped to arrange interviews. I wrote a one-page introduction in Chinese, with my name, school affiliation, contact information, and research interest. I drafted a general description, indicating that I understood the difficulties faced by firms such as increasing labor cost and intensified labor regulation, and I was interested in their strategies to cope with these challenges. Most interviews lasted between one hour and one hour and a half. The interviews were organized to ask the following questions: 1) the founders' backgrounds and their entrepreneurial experiences; 2) the history of their firms; 3) their perceived challenges; 4) their interactions with other relevant actors; and 5) their planned or ongoing changes.

In addition to interview data, due to the timeliness of the topic, a great deal of information is available, such as policy documents, labor laws, and editorial opinions. Scholars from multiple disciplines, both inside and outside China, have devoted significant efforts to examining relevant themes. Their case studies as well as survey data have become readily available to gauge the magnitude of the challenges faced by labor-intensive manufacturers, and to better examine the root causes of why firms of different capital origins have different strategies for coping with the challenges such as rising labor shortage and wages.

My primary unit of analysis is Taiwanese entrepreneurs as a group vis-à-vis domestic entrepreneurs, which is related to different network configurations. Of course, when necessary, I also use individual firms or entrepreneurs to illustrate my points.<sup>16</sup> With respect to data analysis, I code interview notes and summarize the most commonly emerging themes, such as industrial upgrading, the domestic market, brand building, sustainability, labor shortage, increasing labor cost, relocation, expansion, etc. I use these codes to analyze the similarities these Taiwanese

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<sup>16</sup> In this case, I treat firms and entrepreneurs interchangeably.

entrepreneurs have experienced in Taiwan and on the mainland as well as their similar actions, even though they now have a different understanding of what they should have done. In addition, I also highlight the contrasts between Taiwanese and domestic entrepreneurs as two different groups. To be sure, these two groups are not fundamentally different in terms of culture, languages, or institutional backgrounds. What distinguishes them is their experience with global production networks and hence the different local networks they have participated in and maintain, which is a major theoretical point.

With respect to data analysis and evidence presentation, I focus on Taiwanese entrepreneurs and use Chinese domestic entrepreneurs as a reference group. This principle is consistent with the theoretical argument about inter-firm networks. The Taiwanese entrepreneurs have maintained their coordinated production networks and were engaging in transferring these networks to other contexts. In contrast, domestic entrepreneurs have established vertical networks between them and franchisees. The contrast demonstrates a clear causal linkage between timing, local contexts, and subsequent network formation and changes.

### **Taiwanese Firms' Coordinated Production Networks and the Global Market**

It has been well established that firms in emerging economies learn and gain capabilities through joining global value chain, which are understood as an integrative process of cross-national coordination (see Gereffi et al. 2005 for a review). Scholars adopting this perspective have conceptualized these global value chains as opportunities for firms in emerging economies to achieve varying degrees of success in “moving up the value chain.” For example, manufacturing exporters, usually in labor-intensive sectors such as apparel, began by merely assembling imported inputs, moved to the full-package production with their own design, and

eventually some have managed to develop their own branded merchandise and distribution pipelines (Gereffi 1999: 91-92).

In line with this perspective, Taiwan apparel firms are often cited as a successful example of learning-based upgrading along global production networks. The timing of Taiwan's economic growth coincided with the globalization of apparel production networks. Driven by labor shortage, rising wage rates, and other factors, many U.S. and European branded marketers, manufacturers, and retailers began to outsource their manufacturing functions to Taiwan in the early 1970s. The Taiwanese state allowed "familial patterns to shape the course of Taiwan's industrialization; this has in turn led to decentralized patterns of industrialization, a low level of firm concentration, and a predominance of small- and medium-sized firms" (Hamilton and Biggart 1988: S79). The flexible but densely connected production networks enhanced Taiwan's competitive edge in global garment markets.

To be sure, these coordinated production networks are not vertical linkages connecting upstream and downstream firms. Instead, they are characterized by "satellite factory systems" (Hamilton 1997) or "cooperative factories" (Chen 1994), consisting of independently owned small, medium-sized, and some large firms joined together to manufacture products for the export market. Network organizers put together the needed firms to manufacture the product in the amount required. Furthermore, the backward and forward connections between firms and entrepreneurs, coupled with low capital requirement and the abundant demand, generated a large number of spin-off firms founded by former employees (Wade 1990). The combined global and domestic environments gave rise to the OEM strategy by assembling imported, pre-cut fabric for global lead firms, because it requires low capital investment, limited skill training, and no

marketing and sales expertise. With time, some OEM firms were able to move up the value chain by engaging in ODM, a full-package production system.

Many Taiwanese entrepreneurs in Dongguan I interviewed are in their early sixties. Initially they started to work as manufacturing workers in apparel factories in Taiwan in the 1970s, mastering manufacturing skills, observing or practicing managerial knowledge, and accumulating start-up capital in the early 1970s. They later founded their own workshops or small factories, becoming subcontractors for larger firms including their former employees. These entrepreneurs began their manufacturing activities through the mode of OEM. Over time, they have learned know-how from their clients and accumulated experiences and some have successfully moved to the stage of ODM, a typical upgrading process experienced by Asian tigers in the process of industrialization.

In the late 1980s, a number of serious problems emerged as a result of Taiwan's rapid economic success—the appreciation of the New Taiwan dollar, rising labor wages, increasing labor shortage, and international protectionism. Since being allowed to visit mainland China in 1987, these Taiwanese entrepreneurs began to relocate their factories to Dongguan, attracted by informal institutional factors such as a common language and geographical proximity. In addition, due to political considerations, the Chinese government provided them exclusive incentives: their firms could be 100 percent Taiwanese-owned, 50 percent of their output could be sold in China's domestic market, and they could get a discount on land use in setting up factories.

Their flexible but densely connected production networks in Taiwan were transplanted to Dongguan too. For example, *Bright*, as a globally recognized Taiwanese firm, has established numerous factories in Dongguan since 1988, hiring more than 100,000 workers. Many smaller



Taiwanese firms followed its relocation and settled there too. The evolution of *Prosperity* illustrates the interdependence between these Taiwanese apparel firms in Dongguan. It was established in 1997 by a Taiwanese manager and his wife, both of them former middle managers in *Bright*. They hired their former colleague, a mainlander, as the general manager in their newly established firm. A large share of their orders was from their former employer *Bright*. After a few years of successful operation, in 2005, the founding couple of *Prosperity* sold their factory to another young Taiwanese entrepreneur, while the mainlander manager remains in charge of its daily activities. By the time of my fieldwork, about 80 percent of its business was still with *Bright*.

After about twenty years of development in Dongguan, similar to their own past history in Taiwan, these Taiwanese entrepreneurs now face the combined pressure of labor shortage, rising labor and material costs, and currency appreciation. Although this time they have realized the importance of moving up the value chain through original brand manufacturing (OBM), as well as the huge potential of the Chinese domestic market, they also acknowledged that they were already late in pursuing this strategy, as both the high- and low-end markets have been captured by other firms. In addition, although they are very competitive in productivity, fast delivery, and production management due to their forty years of experience along the global apparel value chain, they have little experience with marketing, distribution, and sales, the essential elements of OBM strategy. In response, these entrepreneurs were in the process of transforming their extended networks (*vis-à-vis* production networks) as a means through which they could explore the domestic market. And of course, they were also considering migrating (or had already relocated) to lower labor cost areas, either to inland China or to other Asian countries. The sections that follow elaborate on the presence of local domestic entrepreneurs as a

reference group and the network-building efforts by Taiwanese entrepreneurs in response to the current challenges.

### **Domestic Entrepreneurs: Franchisee Networks Exploring the Domestic Market**

By the time these Taiwanese entrepreneurs moved to the mainland in the early 1990s, there had emerged a large and growing domestic apparel consumption market in mainland China, as shown in Figure 2.2 (McKinsey Consumer Report 2006). It was a group of domestic entrepreneurs rather than their Taiwanese counterparts who started to venture into this huge and underexplored domestic consumer market, although Taiwanese firms were not constrained by policies from entering the domestic consumer market.

[Insert Figure 2.2 about Here]

A general pattern of brand-manufacturing-distribution strategy targeting the domestic market is associated with the rise of a generation of domestic entrepreneurs who were born between the late 1960s and early 1970s in China. They started as retailers and wholesalers by taking advantage of the local apparel cluster composed of many Taiwanese ODM firms that began to design samples for their global clients. Some samples were chosen and put in mass production while others were rejected. It was those rejected samples that provided business opportunities for some forward-looking domestic entrepreneurs. They purchased those samples at a very low price and distributed them to the domestic market through local trade centers. Within several years, they accumulated capital and knowledge of the domestic market and finally founded factories to manufacture their own brands in the 1990s. In terms of sales and distribution channels, franchising has become a prominent approach. The typical growth route of such a strategy is as follows: a domestic entrepreneur founded a firm between 1995 and 2000

with only a dozen employees and a large but unexplored domestic market in the less developed regions; and currently they employ thousands of employees manufacturing for at least several hundred franchisees spread through many provinces, mainly located in third-tier cities or county seats.

In this entrepreneurial process, the role of local trade centers was important. By the early 1990s, there emerged several large trade centers in Dongguan, attracting a large number of apparel retailers from all over the country. In addition, the reputation of Dongguan hosting a cluster of apparel firms became well established in the 1990s when local government and firms began to organize annual or even seasonal trade fairs. Through these trade fairs, the impression of “made by Dongguan” was diffused and reinforced, which helped local brands to be recognized by retailers and customers dispersed in China. Although less documented by academic literature, it is well known among business and media communities that the era around 1997 was the “golden age” for many domestic entrepreneurs. They owned factories in the backyard, while at the same had wholesale stores in the front yard. Production and sales were integrated, which saved much cost and reduced uncertainties for early entrepreneurs. While this short period of prosperity ended for most entrepreneurs, there are quite a number of forward-looking entrepreneurs who began to seriously pursue the OBM strategy targeting the domestic market. An important departure of their strategic choice from the apparel tycoons such as Nike is that these domestic entrepreneurs kept production, design, marketing, and distribution functions all in their firms. Without rich manufacturing knowledge, these entrepreneurs tended to hire experienced production managers, usually mainland Chinese from Taiwanese firms. In addition, acquiring well-functioning small OEM firms was also a common strategy to enhance their production capabilities. Their marketing and sales skills, well integrated with their

emphasis on production management, have created successful brands among consumers. With about 20 years of rapid growth, on average, such a typical firm has now grown into a large apparel corporation with thousands of employees, producing for more than 1,000 retail stores, of which more than 90 percent are franchisees.

Mr. Lin's story is a typical case of such an entrepreneurial endeavor. He was born in 1971 in a city near Dongguan. After high school, he moved to Dongguan, where he rented a booth in a local trade center. He bought apparel products from many local ODM firms whose samples were not chosen by global leading firms, and sold these clothes to retailers in China. This was how he met his wife and business partner, a woman with design expertise in a local firm. They founded their own factory in 1997, manufacturing their own brand *Pure*, initially with fewer than 100 workers. By 2004, they owned four factories producing apparel for more than 1,000 franchisees. By 2011, the number of factories owned by them had increased to more than 30, not including about 40 contract factories. Altogether, these approximately 70 factories were manufacturing their own brand for about 4,000 franchisees in China.

A key factor that has contributed to these firms' sustained development is the establishment of multi-layered franchisee networks, monitored and supervised from the brand-manufacturer<sup>17</sup>. For example, such a typical firm divides China into several regions based on geographical proximities, which constitute its first-tier networked partners. Under each region,

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<sup>17</sup> This combined role of being a brand name and being a primary manufacturer, although difficult to perform, turns out to be a very successful option for these domestic entrepreneurs. Through manufacturing activities, they are able to control the quality, styles, and delivery of their branded apparel. Maintaining a brand name gives them greater bargaining power vis-à-vis producing for global buyers.

there are several provinces, each of which tends to have a second-tier partner who then oversees the franchisees in cities, counties, or even townships<sup>18</sup>.

[Insert Figure 2.3 about here]

Figure 2.3 displays the two different network configurations for Taiwanese entrepreneurs and their domestic counterparts. The Taiwanese entrepreneurs' networks are between different firms through their cooperative economic activities. In contrast, a typical domestic firm in my study does not have such an intertwined relationship with other similar firms. Instead, it has developed and maintained multi-layered networks with franchisees that help to distribute its products to the end consumers in China.<sup>19</sup> This networked pattern of distribution channels helped these domestic firms to explore the domestic market at a relatively low cost, but also with quick information feedback regarding customers' behavior. Over time, many sophisticated information exchange and coordinating mechanisms have been institutionalized. For example, one interviewed manager summarized how her firm monitored customers' reaction:

We have issued our own debit card. We encourage our franchisees to promote this card. As an incentive for both franchisees and our customers, we promise that we (instead of the franchisees) will compensate the reduced income rendered by discounts associated with using this card. We have access to detailed transaction information of any card being used and therefore are able to analyze the popularity of different styles, colors, etc.

This and many other efforts, initiated with the appropriate timing, have created some successful domestic entrepreneurs. One scholar who has observed the economic growth and the

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<sup>18</sup> To be sure, such layered networks are not identical to administrative systems. It is rather for convenience, as many provincial capital cities happen to be transportation and economic centers, too.

<sup>19</sup> These domestic firms are also very cautious about global expansion. County seats, third-tier cities, and even affluent townships in China are where profit comes from. Some firms opened several retail stores in southeastern Asia and the Middle East several years ago, but quickly withdrew when they realized the uncertainties and were convinced of the unexplored potentials in the domestic market.

emergence of alternative developmental pathways stated, “There is a map of all franchisees of Pure. Imagine three thousand dots or small red flags marked in the map of China. The first time I saw it, it reminded me of what Chairman Mao used to say: ‘A single spark can start a prairie fire.’” Interviews with this firm’s managers evoked similar comments:

I have to say it is amazing. In many small cities and county seats, our franchisees have become a landmark. Some of them are super successful. They owned a stand-alone building with several floors at the center of the most prosperous local marketplace. If you ask for directions in a place, people will mention our retail store as a reference (manager Hu in Pure, 2011).

Coincidentally, this well-known saying of Mao’s, which suggests an optimistic trajectory from rural mobilization to final success in urban areas, reflects the strategy of these domestic entrepreneurs, too. In general, these successful domestic firms are especially articulate about their market niches. When asked about market competition, interviewees were able to elaborate on the differences and similarities between themselves and peers, most of them being local firms. These firms were very careful in categorizing their market niches, trying to avoid fierce competition with each other. They indicated very clearly that they would not go to first- or even second-tier cities, where their products roughly in the lower middle range could not attract loyal customers. One interviewee made this point explicitly:

Our products are women’s fashion. You can see the image in our catalogs. I think our products’ pricing is at the middle level. Of course, we do not target office ladies in first-tier cities such as Beijing, Shanghai, and Guangzhou. They surely have much higher standards and could afford foreign brands. Our primary market is second- and third-tier cities. For example, the capital of a less developed province or a small city in an affluent province is where we can attract loyal customers (interview with a manager in Fashion Information).

Interviews with other domestic firms also confirmed this concern over profitable market niches. Even the iconic firm *Pure* has knowingly constrained its products to youth fashion at an

affordable price, although it does have some franchisees in first-tier cities, but they mainly serve the purpose of advertising and image building.

The success of *Pure* and *Fashion Information* is not an exception. There are some other successful firms founded around the same time in Dongguan pursuing the same strategy. The firm *Art* is another example following the same footsteps. It was founded in 1995 and has manufactured its brand since then. It developed from only about ten workers to 700 workers who were only in charge of 40 percent of its production “because the high labor cost has compelled us to increase outsourcing our manufacturing activities from 20 percent to 60 percent in the past several years” (interview with Miss Lee). Table 2.2 is a summary of the trajectories of both Taiwanese and domestic entrepreneurs in Dongguan.

[Insert Table 2.2 about here]

Despite the overall promising development, these domestic firms, like their Taiwanese counterparts, are also facing the combined pressure of increasing labor and material costs, although the global financial crises have a limited impact. In response, they have engaged in a seemingly similar but fundamentally different strategy in comparison to Taiwanese entrepreneurs. These domestic firms are now reorganizing their corporate structures along the line of core competencies. Instead of relocating to low labor cost regions, they are keeping their headquarters and important manufacturing activities in Dongguan. Meanwhile, they have expanded geographically by strengthening their design centers in Guangzhou, the capital city of Guangdong Province, about 1.5 hours’ drive or 30 minutes by high-speed train, because it is “the step every large corporation in the fashion industry has to go through to attract talent in design” (interviews). With respect to manufacturing function, they founded new factories in lower labor

cost regions such as Jiangxi Province and Hubei Province. Additionally, they also began to outsource non-core manufacturing activities to other firms.

### **A Note on Domestic Firms Entering Production Networks**

To be sure, domestic firms in Dongguan have had opportunities to enter local and global production networks, too. Established by a local couple as early as 1989, *Fox* has been less successful in the domestic market. When founded, *Fox* was an OEM firm, manufacturing for global lead firms. Although it registered a brand as early as 1991, it did not spend considerable resources on marketing and advertising until more recently. In many respects, its brand has remained as a legal or administrative status rather than a reputation or impressive image in the market sense. Its current brand *Fox* was launched in 1996, initially under another name, and later changed into the current name. Unlike other domestic firms exclusively manufacturing their own brands, *Fox* has also engaged in OEM for the export market, an effort to balance its relatively poor performance in the domestic market (interviews with other firms). Although *Fox* was established earlier than most domestic firms under study, its initial strategy was OEM targeting the export market, which has impeded its strategic change into a committed OBM model, and hence it missed the golden age of expanding its domestic market niches in the early 2000s. Even after the more recent investment, its franchisees still number less than 300, much lower than the average number for other domestic firms under study.

### **Taiwanese Business Association and Ongoing Changes**

As discussed above, after twenty years in Dongguan, the Taiwanese entrepreneurs began to face challenges—rising labor cost, increasing labor shortages, and currency appreciation—similar to those that made them leave Taiwan. These repeated challenges reinforced the



dilemma of geographical relocation learned from their past experience. In response, two different reactions were pursued. One is geographical relocation to lower labor cost areas. Some firms have moved their non-core manufacturing facilities to interior provinces in China or overseas, utilizing the policy incentives and the large amount of cheap labor available there. While *Prosperity's*<sup>20</sup> evolution showcases the network-formed business and entrepreneurial dynamics of Taiwanese investors, its current strategy provides an example of reconsidering geographical relocation as a potential reaction based on its networked upstream and downstream clients. Its current owner established a factory in Vietnam in 2009. He spent most of his time there, trying to get it on the right track. Meanwhile, the general manager deals with *Prosperity's* routine operation in Dongguan. When asked about the possibility of moving to interior provinces in China, the general manager said:

We now have about 250 workers. It would cost us a lot to relocate to Jiangxi province [an interior province competitive in attracting FDI in recent years]. Large firms are offered numerous incentives to move to interior provinces. As a small factory, we do not get such treatment. The moving itself would cost a lot. Plus, our primary client is still around here. If we move, we would have to develop new clients.

The current situation of *Prosperity* illustrates two points. On the one hand, it shows the ongoing effort of migration, as its owner established a new factory in Vietnam. However, because the supporting institutions in Vietnam are not as well established as those in Dongguan (interviews), he himself works hard to get his Vietnamese firm on the right track and trusts his general manager to run *Prosperity*. On the other hand, relocating to Jiangxi province is largely determined by the entire production network among Taiwanese apparel firms in Dongguan. The

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<sup>20</sup> The interview with the firm's general manager suggests that it is a typical Taiwanese firm in Dongguan in many respects, including frequently changing names and hence ownership structures to cope with varying incentives and regulations on corporate tax applied to foreign investors. The changing regulation of international trade in the past twenty years is also an important factor determining the firm's name, registration, and legal status.

local production networks are fairly stable, which greatly reduces uncertainties and operational costs.

The duality of remaining in Dongguan and moving to lower labor cost areas characterizing *Prosperity's* strategic choice is a prominent feature of large firms. A mixed balance of concentrating core competencies in Dongguan and exploring lower labor cost regions is commonplace for many apparel and footwear manufacturers. The large firm *Bright* is exploring a similar strategy, according to its senior production manager.

Jiangxi province provides better incentives. It mobilizes far more resources to attract FDI and is becoming a winner in the current round of FDI attraction. The minimum wage [standard] there is much lower. A lot of residents there used to work in Dongguan. Now they can stay at home and work. ... We keep our core business here. Shoes manufactured in our Guangdong factory are priced over \$100 in U.S [retail price]. Our Jiangxi specializes in lo- end shoes.

[Insert Figure 2.4 about here]

Without systematic data on all potential regions that the firms in Dongguan considered to move to, I do not claim that I can offer specific answers to why firms chose a particular region out of all potential regions. A brief comparison of minimum wages in Dongguan and Ganzhou in Jiangxi province is illustrative. Since 1995, both regions have adopted the regulation on minimum wages and since then have kept adjusting the standards. The difference between these two regions has increased over time. For example, in 1995, the minimum wage in Dongguan was RMB 280, while it was RMB 190 in Ganzhou. The difference was RMB 90, or 47.4 percent higher in Dongguan. By 2012, the absolute difference is RMB 490, 61.3 percent higher in Dongguan. Despite its relatively low minimum wage standard, the pattern is strikingly similar: the minimum wage standard in Ganzhou has been increasing over time. It might become another Dongguan even in a shorter period of time.

While some firms are moving their non-core manufacturing competencies to lower labor-cost regions, others are hesitating. Mr. Lai is in his late 60s, with almost five decades of rich experience. He moved with his factory to Dongguan in 1993 and since then remains as a co-founder and senior manager. When commenting on the current challenges and potential strategies, he said:

It is very difficult for us, but it is how traditional industries evolve. It happened in Taiwan 20 years ago. Now again... It is the large environment for traditional industries. ... Moving to lower labor-cost regions is an option, but it would repeat the same path in the future [rising labor shortage and wage rates]. It is not sustainable, but it is how traditional industries evolve.

It is true that these Taiwanese entrepreneurs under study have had the experience of relocating from Taiwan to Dongguan around 1990, but their migration experience does not always reinforce that particular choice. Instead, for some of them, their past experience becomes a discouraging influence for further relocation. The ongoing combination of rising labor shortage, increasing wage rates, and the RMB appreciation in mainland China triggers many Taiwanese entrepreneurs' collective memories of Taiwan in the 1980s. Some of them are cautious about moving to lower labor cost areas, because it might mean they are repeating the typical "unsustainable" trajectory of traditional industries. Besides, local production networks are still well maintained, although global buyers "do not increase price but exert more requirements."

Given these considerations, the other strategy is industrial upgrading in the sense of elevating their positions in apparel value chains. During interviews, many Taiwanese entrepreneurs mentioned the importance of having their own brands and exploring the consumer market in China, and that they have started to pursue the domestic market. The key issue lies in the fact they might not possess the capabilities to carry out alternative strategies. Mr. Zhou is a

senior manager in a large Taiwanese firm in Dongguan. He commented on the theme of brand building:

We now realize the importance of the domestic market and have engaged in building our own brands. We have eight factories in Dongguan, among which factory 8A will specialize in our own brand. But to be honest with you, it is not good timing. Nowadays, if we want to do advertising in Shanghai, for example, an investment of RMB 10 million generates nothing. It is like you throw a little stone in a river; you barely hear or see anything before it vanishes.

As summarized elsewhere, despite their unique niche in global garment production, Taiwanese exporters in general have not controlled the “channels of distribution,” which are the most profitable nodes of the apparel commodity chain. These higher value-added nodes are still controlled by big foreign buyers (Appelbaum and Gereffi 1994). The Taiwanese entrepreneurs’ past experience of the withering garment sectors in Taiwan taught a lesson that “it is how traditional industries evolve” if they do not move up the commodity chain. Many Taiwanese firms were coordinating with each other to build a distribution system targeting the domestic market, for which the local TBA might mitigate uncertainties and risks, and enhance their bargaining power.

Some Taiwanese entrepreneurs began to pursue an OBM strategy targeting the domestic market. The premise of “industrial upgrading,” understood as OBM, relies on the local Taiwanese Business Association (TBA). Unlike the coordinated production networks connecting Taiwanese apparel firms, the TBA is an organization of all Taiwanese firms in Dongguan, regardless of sectors. Membership is voluntary, limited to Taiwanese entrepreneurs and their firms. Compared with business associations consisting of domestic entrepreneurs, TBAs are usually given greater autonomy. The Dongguan TBA has been playing an important role in coordinating Taiwanese entrepreneurs’ efforts to provide public goods there. For

example, with a growing number of Taiwanese entrepreneurs and managers choosing to dwell in Guangdong, it became necessary for them to solve the schooling problems. The Dongguan TBA founded a private school system in 2000 for Taiwanese there, ranging from preschool to high school. A similar coordinating effort was also demonstrated in the founding of a private hospital.

The Dongguan TBA's current agenda is to create a distribution system targeting the domestic market. By the time of my fieldwork, a first attempt had already been implemented there: a large wholesale supermarket was established. The goal is to create an intermediary bringing together Taiwanese manufacturers in Dongguan and consumers in China. During my fieldwork, they were trying to replicate this wholesale supermarket model in a handful of large cities in north China, where, according to my interviewees, the market niche had not been fully occupied. More recently, it has been approached by more than 20 provincial governments to establish local branches there (interview with Prof. Q, 2012). Besides continuing to perform their OEM role, some Taiwanese entrepreneurs I interviewed were actively engaging in creating and promoting this wholesale supermarket model. As the Dongguan TBA leaders, as well as the board members of the wholesale supermarket, they pioneered in displaying their own branded apparels there. Some of them represented the wholesale supermarket management team to negotiate potential entries with local governments in interior provinces. For many Taiwanese entrepreneurs who moved their production sites offshore to mainland China around 1990, moving up the commodity chains by designing, marketing, and distributing their own brands and products is a viable approach to avoid repeating the tragedy of "traditional industries."

Given the nature of this ongoing attempt, it is difficult to predict how successful this collective brand building action will be, and at what level it could help the large number of Taiwanese OEM firms to achieve industrial upgrading. Although the Taiwanese entrepreneurs

have recognized the potential of OBM strategy targeting the domestic market and have been exploring the feasibility of this distribution channel, they also admitted that geographical relocation is a very likely or the default choice in the end.

### **Conclusions and Discussion**

Many manufacturing exporters have greatly contributed to economic growth in China in its first three decades of global integration. These vibrant firms have been relying on a great number of low-wage workers to manufacture consumer goods for global buyers. The export-oriented and labor-intensive growth model has encountered bottlenecks as labor, land, and raw materials become more expensive. Firms' reactions to these challenges have revealed the effects of different network configurations. Using a case study of Taiwanese and domestic firms in Dongguan, this chapter makes three contributions. First, I propose the patterned networks as an explanatory factor of different strategic choices and their consequences. My empirical research suggests that the Taiwan state's relatively hands-off approach in regulating the apparel sector in the 1970s generated many small and medium-sized firms. These firms were linked by flexible but densely connected production networks. The coordination between these firms enabled them to survive the crisis in the late 1980s and helped them transplant their production mode to Dongguan in the early 1990s. It is also this particular networked pattern that explains why many Taiwanese firms missed the better timing to enter the domestic market in a way parallel to domestic firms. My study emphasizes the contextual effects of inter-organizational networks. In the case of Taiwanese manufacturers, their production networks and the TBA provide constraints and opportunities for industrial upgrading or geographical relocation. In the case of domestic

firms, the multi-layered franchisee networks provided flexibility and information feedback mechanisms for access to the domestic market, especially in less developed regions.

Secondly, my research revitalizes the central interest in strategy literature: an adaptive versus inertial view of organizations. Similar to the structure-agency dichotomy in sociological theory, there exists no single answer to these fundamental debates. The specific research contexts matter. Founding conditions do shape an organization's features, but equally important is the feedback loop between founding features and their fit with subsequently changing environments. In the case presented here, I traced the entrepreneurial history back to early 1970s Taiwan to examine how firms' founding conditions shaped Taiwanese entrepreneurs' initial strategy of OEM and how their strategic choice was carried over to mainland China in the late 1980s—for example, when they had opportunities to reorient their strategy to OBM. Similarly, I also showed that domestic entrepreneurs in Dongguan launched the brand-manufacturing-distribution strategy in the 1990s, when they were offered the alternative choice of OEM.

Thirdly, this research sheds new light on industrial upgrading. Prior literature has exclusively focused on the global value chain as offering opportunities for firms in emerging economies to achieve varying degrees of success in “industrial upgrading” (see Gereffi 2005 for a review). The underlying mechanisms of such industrial upgrading are network-based learning and explicit coordination. For many manufacturing exporters in developing countries, their entry into global commodity chain moved them onto “potentially dynamic learning curves” (Gereffi 1999: 39). By complementing this perspective's exclusive focus on global linkages and export markets, my research highlights the importance of domestic entrepreneurship and the domestic market. I argue that the typical route of industrial upgrading along the value chain only tells an incomplete story. The domestic entrepreneurs in Dongguan started from OBM after their brief

experience in distribution and sales. Their detour from the usual upgrading trajectory illustrates the importance of timing in exploring a potentially large domestic market. My research does not intend to argue against the perspective of global integration. On the contrary, by shedding light on the overlooked domestic entrepreneurs targeting the domestic market, this study bridges the gap between industrial upgrading literature and studies of entrepreneurship.

### **Discussion and Future Research**

In addition to these three important contributions, this chapter also provides a nuanced understanding of industrial upgrading and policy narratives. Interviews, local newspapers, the state policy agendas, and local business associations' articulated missions all suggest that industrial upgrading has become a pivotal theme in local politics and economic development policies. Although different actors espoused the rhetoric of industrial upgrading, they understood and interpreted it very differently, employing different meanings of this generic concept. Industrial upgrading could be observed at different levels. For example, within a firm, reorganizing production tasks among workers might improve productivity and quality, which is regarded as industrial upgrading. Also at the firm level, a well-documented example of upgrading is to replace simple manufacturing activities by machine tools. At the regional level, in the case of Dongguan, the incentives to build brands and to invest in high technology sectors are indeed industrial upgrading, sponsored by local governments. Exactly how entrepreneurs understand and act on the paradigm of industrial upgrading therefore needs further investigation. Future research could follow the current campaign of industrial upgrading and its implications for firms and regional economies.

The implication for regional economies is, indeed, another theme to be clarified. There has emerged a seemingly similar strategic choice by both the domestic and Taiwanese



entrepreneurs: moving to lower labor cost regions in China. Beyond this superficial similarity, however, are different capabilities. Domestic firms established factories in lower labor cost regions but kept their headquarters and core production capabilities in Dongguan. In addition, they began to invest in design and marketing in high labor cost regions such as Guangzhou. For many Taiwanese entrepreneurs, the combined challenges of rising labor and material costs as well as RMB appreciation left them little choice but to relocate to lower labor cost regions, despite their ongoing effort to build their own brands. Put another way, the labor-intensive manufacturing jobs are leaving Dongguan. How will this change affect the city of Dongguan, whose rise was driven by many export-oriented OME firms and migrant workers? Will some inland regions in China and low labor cost countries be offered an opportunity to replicate the Dongguan model? Time will tell.

This research has a few limitations. First of all, the firms' strategic reorientation under study is an ongoing process. It is true that some firms have already initiated actions to explore opportunities in one way or another, but other firms are still observing. Regardless of their divergent choices or planned strategic restructurings, the outcomes of their action or inaction are not yet evident. Secondly, by the time of my latest fieldwork in August 2012, the global financial crises and the accompanying domestic and international challenges had been influencing firms in Guangdong for a few years. It is very likely that some firms had already gone bankrupt, relocated, or exited the apparel sector due to the extraordinary difficulties. My sampling might have missed these firms, and thereby failed to portray a complete picture of firms' reaction to the prototypical challenges experienced by many other emerging economies with a large share of manufacturing exports. However, the availability in the near future of many detailed statistics and empirical case studies examining the specific period between 2008 and

2012 might help us better understand that turbulent environment and its effects. Third, like many case studies, mine is unable to delineate the detailed network ties between firms by drawing on survey data or archival information to further control for the effects of networks on firms' strategic choices. Future research on this matter could rely on the large-scale administration of questionnaires to gather information on inter-organizational ties and then separate the network versus imprinting effects on firms' strategies.

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**Table 2.1: Basic Statistics of Dongguan**

Basic Characteristics	1978	2006	2010
GDP (RMB million)	611	262,798	424,645
Per capita GDP (RMB)	533	394,90	566,01
Foreign capital by Taiwan (US\$ million)	30.2 (1995)	1,306.8 (2005)	812.1 (2009)
Value of export (US\$ billions)	39.4	47,376.4	69,597.5
FDI (US\$ million)	0.1 (1981)	1,810	2,590 (2009)
# Hong Kong, Macau and Taiwan invested firms*	79 (1985)	10,271	6,724 (2009)
Registered migrants in labor force	104,091 (1986)	5,669,798	3,912,274
Registered local residents (million)	1.112	1.787	1.818
Foreign capital (US\$ million)	1.73 (1979)	4,337.73	3,162.87

Data source: National Bureau of Statistics of Dongguan; Data are from the 2011 census.

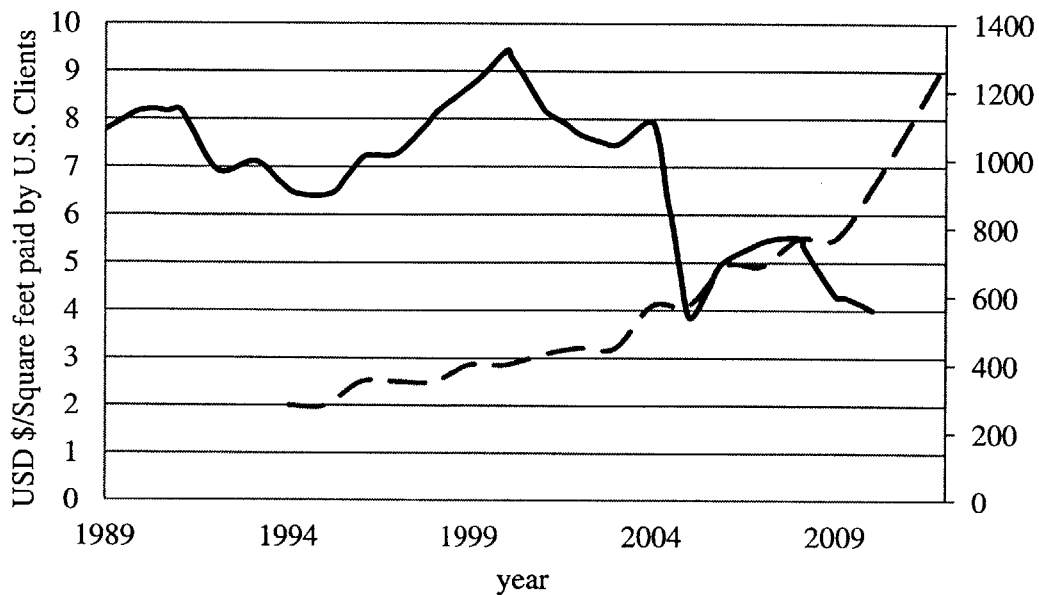
\*the number of such firms is much underestimated;

**Table 2.2: Taiwanese and Domestic Entrepreneurs**

	Taiwanese entrepreneurs	Chinese domestic entrepreneurs
1990s onwards, Dongguan		
Initial mode	Medium OEM factories	Small wholesalers
Current mode	Large OEM factories	Large firms
Have brands	No	Yes
Primary market	Export	Domestic
Distribution	No (foreign clients)	Franchising
2010s, consequences		
Domestic market	Missed; difficult to enter	Developed niches
Current challenges	Fundamental; moving	Less challenged; expanding
1970s-1980s, pre-history in Taiwan		
Initial entrepreneurship	Small OEM factories	N.A.
Development	Medium OEM factories	

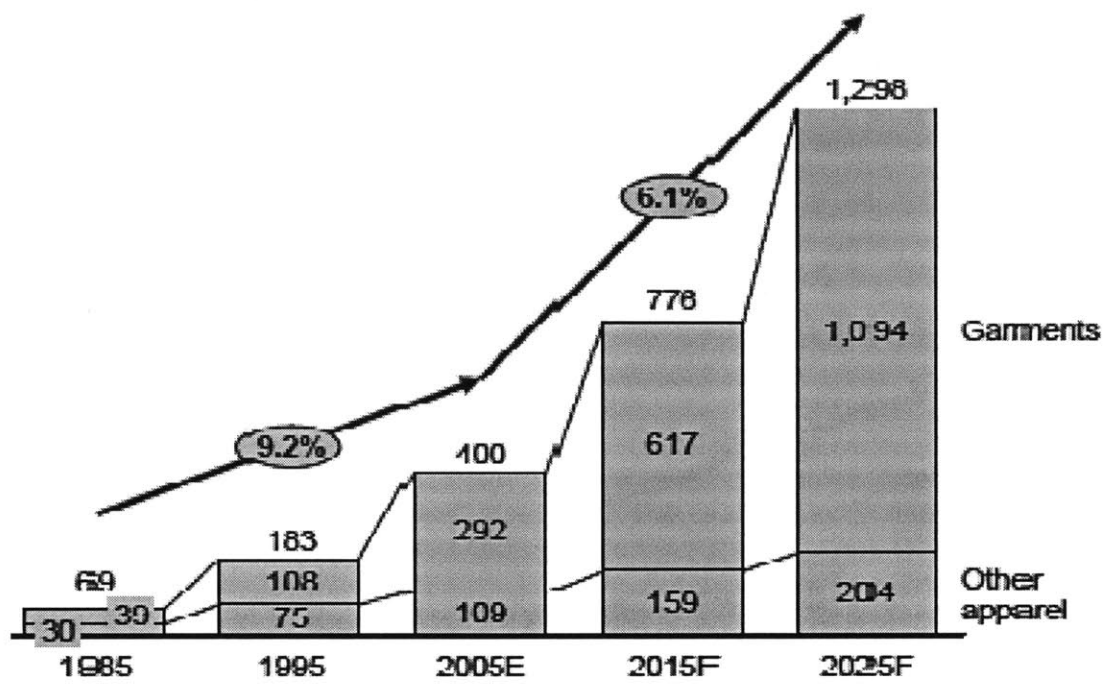
Source: interview data and archives

Figure 2.1: Combined Challenges in Dongguan



Source: Statistics year books, Guangdong Province;  
 Anner et al. 2012; adapted Figure 2

Figure 2.2: A Rising Apparel Market in China

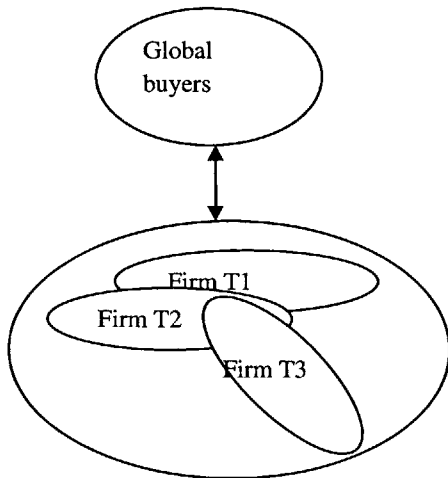


Unit: RMB billion

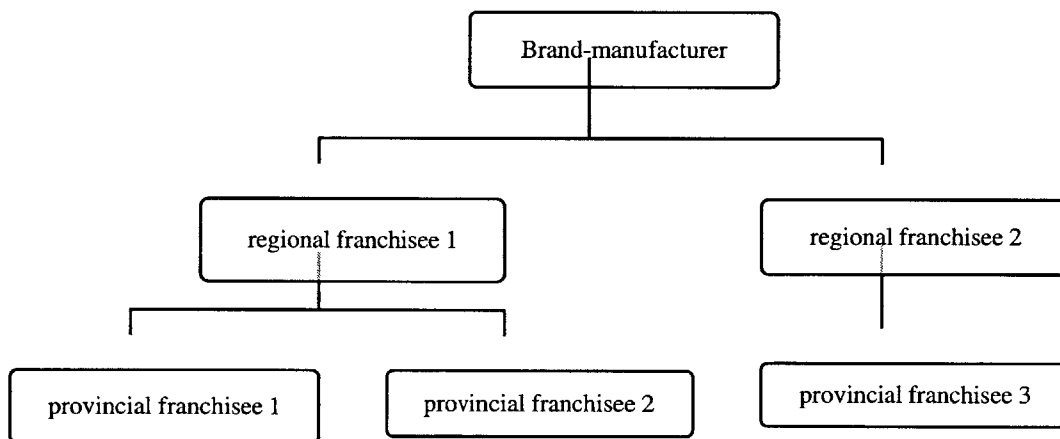
Source: McKinsey Report, 2006



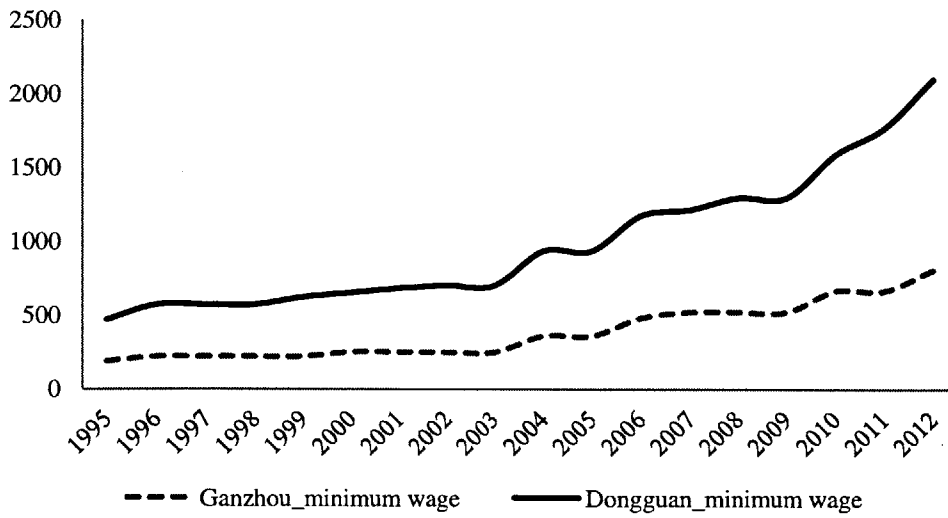
**Figure 2.3: Schematic Representation of Networks**



Coordinated Production Networks among Taiwanese Apparel Firms



Vertical Networks of a Typical Domestic Apparel Firm

**Figure 2.4: Minimum Wages in Dongguan vs. Ganzhou**

Source: Statistics year books; Jiangxi and Guangdong Province

## CHAPTER 4

**The Future of the Academic Field of Industrial Relations in China****Abstract**

Drawing on extensive coding archival data and more than 7,000 articles published in two top Chinese-language social science journals, this chapter reviews the evolution of industrial relations in contemporary China (1949-2011), summarizes the academic research on industrial relations (IR) between 1985 and 2011, and discusses the future development of IR as an academic field. In general, there are two sub-spheres of a broad IR field (Kaufman 1993): human resource management scholars have focused on white-collar employees' psychological well-being, individual performance, and team efficiency; sociologists have contributed to our understanding of manufacturing workers' economic, social, and political disadvantages. An integration of both perspectives is important for the development of an IR field in China, especially given the recent state effort to establish stand-alone academic units devoted to IR research.

*Every field of knowledge is directed at the study of certain key forms of behavior....Industrial relations was thought to focus on the employment relationship and, in particular, on the relationship between employers and workers and the labor problems that grow out of this relationship.*  
---- Bruce Kaufman (1993: 11)

## **Introduction**

Industrial relations (IR) is one of the most salient examples of how an academic field emerged in response to real-world problems. Labor problems such as violent strikes, high turnover and absenteeism, and the growth of militant trade unions and socialist political parties gave rise to an academic field of IR in 1920 in the U.S., when the University of Wisconsin, under the leadership of John Commons, established a specialization in IR within the undergraduate economics major (Kaufman 2008: 323-4). And the founding of stand-alone academic units by many land-grant institutions in the 1940s and 1950s further institutionalized an academic field of IR research. In many respects, the rise of IR as a field was motivated by its mission to understand and solve labor problems. This proclaimed goal was embraced by a broad paradigm of the IR field that “was centered on the employment relationship and included both union and non-union sectors and personnel/human resource management and labor–management relations” (Kaufman 2008: 314). This original and broad paradigm of IR research, however, became more constrained in the 1960s, as human resource management (e.g., initially developed from personnel management) started to be incorporated into organizational behavior as an academic unit, usually in business schools.

This brief summary of the evolution of the US IR field showcases how an academic field is motivated, expanded, and endangered by its subject matters, which spokespersons of the field

choose to define and redefine. Several factors (internal to the evolution of the IR field) are related to the decline of the IR field in the U.S. since the 1960s: the failure to recognize the importance of human resource management, the institutionalization of collective bargaining, and the decrease of union membership. A fundamental root cause—the loss of manufacturing jobs—has remained understudied. If the deteriorating employer–employee relations in large manufacturing corporations in the early twentieth century’s America gave rise to the IR field, outsourcing manufacturing jobs to newly industrialized countries (NICs) along global supply chains should constitute a primary factor accounting for the decline of that field.

From the perspective of labor problems, NICs as the receiving end of the outsourced manufacturing jobs should have seen the rise of IR as an academic field. This chapter examines the evolution of the academic field of IR in China, a global manufacturing center experiencing labor problems in its rapid industrialization process and global integration. Additionally, many features of this country help in examining the role played by the state, the rapid growth of professionals, and the diffusion of global norms in shaping an academic field (Babb 2001; Barley and Kunda 1992; Fourcade 2009; Guillen 1994). To be sure, the term “industrial relations” has fluid meanings. In this article, it can be understood as policies and practices regarding employment and labor relations. It also refers to an academic field of IR, understood as the founding of academic units that are devoted to relevant themes in employment and labor relations. When I use it to refer to an academic field, I adopt the broad definition of IR that includes both conventional industrial relations and human resource management.

The object of this chapter is to briefly summarize the evolution of industrial relations in contemporary China, to examine whether an academic field of IR has emerged in parallel to rising labor problems, and to comment on the future of this academic field. In the remainder of

this chapter, I will first summarize the evolution of industrial relations, embedded in a broader institutional context. The next section will discuss how the Chinese state has shaped the academic field of IR, and how international influence has played a role. I will then examine statistics regarding academic research on IR at selective top peer-review journals, as well as the development of two relevant fields: sociology and human resource management. In the concluding section, I will highlight the problems and promises of the IR field in China in a global context.

### **The Evolution of Industrial Relations in Contemporary China**

It has been widely acknowledged that the state has administrative and cultural capacities to shape industrial relations (Kaley, Shenhav and De Vries 2008). The state can exercise direct control through policy implementation, especially during critical moments. For example, the Commission on Industrial Relations was created by the U.S. Congress in 1912, led by prominent scholars and practitioners interested in labor problems. The commission's final report in 1916 established a foundation for creating academic units at universities. During WW II, many countries instituted mobilization plans in an attempt to control the supply of labor. The rise of women in the labor force could be largely attributed to the state's active role in highlighting their patriotic duties. Moreover, the US state's efforts during WW II also generated far-reaching effects on human resource management (Baron, Dobbin and Jennings 1986). Personnel professionals took that opportunity to develop their interest in defending, reinterpreting, and altering the war-time practices in peacetime. The state's interest in promoting a system of industrial relations has its social and cultural origins. The Civil Rights movement in the 1960s

challenged the long-established prejudice against African Americans by implementing legal changes in the workplace (Edelman 1992).

Since the Chinese Communist Party (CCP) took power in 1949, it has formulated and enforced distinct industrial relations during different historical periods to fulfill its overarching goal of economic development and social control. A detailed elaboration of all relevant changes requires a separate account, and here I will briefly outline the three major phases of industrial relations and focus on the current ongoing challenges that may give rise to a durable academic field of industrial relations.

### **Phase I: Social and Economic Dependence on the State, 1949-1980s**

The shaping power of the state is particularly salient during the CCP's consolidation of its socialist system (Walder 1986; Frazier 2002), which constitutes the first stage of industrial relations from 1949<sup>21</sup> to the late 1980s, when state owned enterprises (SOEs) and collectively owned firms<sup>22</sup> fulfilled all sorts of social and political functions, in addition to their economic operation. These SOEs were referred to as work units (*danwei*), exclusively recruiting from urban residents and dominating their lives by granting access to almost all necessary means of livelihood such as food, clothes, and schooling. These SOEs functioned as an overarching institution for their employees, who had to depend on their *danwei* for social and economic

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<sup>21</sup> To be more precise, the so-called socialist reform in industries was initiated in the early 1950s. Many historical accounts have summarized this period. For example, chapter 5-6 in Frazier's book (2002) offers such a description from the perspective of the industrial workplace.

<sup>22</sup> Walder (1986) has elaborated on the nuanced differences in welfare provision between SOEs and smaller equivalent SOEs that were controlled by lower level governments. In this article, these two categories are the same in a comparison with the following stages. I use SOEs to refer to both types of firms controlled by different levels of Chinese governments.

necessities (Walder 1986). As an exchange, employees displayed their political loyalties in a wide variety of settings, ranging from productivity campaigns to political study groups.

This sort of industrial relations system was promoted and enforced by the state's political and cultural capacities, though scholars have offered different perspectives on the origin of this system (Whyte and Parish 1984; Walder 1986; Lu 1989; Shi 1997; Frazier 2002). From a political perspective, the CCP imposed the work unit structure on SOEs and other basic units after 1949 in order to exert its domination of Chinese society. This need was especially salient after various social maladies in Chinese cities in the 1950s. The CCP learned from its own mobilization experiences, predominately in rural areas, and applied them to industrial settings in cities (Whyte and Parish 1984). In short, this IR system emerged from macroeconomic policies (Lin, Cai and Li 1996) as well as political considerations (Shi 1997). This motivation was soon carried out by a repertoire of mobilization skills and rhetoric such as criticism and self-criticism and group discussions.

## **Phase II: State-Led Market Reform, 1990s-mid 2010s**

The second stage was between the early 1990s to the mid 2010s, when various labor problems emerged but were obscured by the overarching theme of economic growth. Although the state is able to shape industrial relations, it also has autonomous goals in preferring employers or employees. Indeed, many NICs have placed priority on attracting investment and tended to maintain a cooperative relation with employers. In contrast, employees' interests are often ignored, at least at the early stage of economic development. Examining industrial relations in Brazil and South Africa, Seidman (1994) points to the historical divergence between NICs and European and North American countries in terms of gradually responding to workers' demands (e.g., minimum wage laws and bargaining rights). The state's redistributive programs



emphasizing workers' interests and power required some degree of confidence "that private capital would not flee, and that higher wages would expand, rather than reduce, markets" (Seidman 1994:8). Because many NICs were unable to address labor problems, "each time a strong labor movement emerged, capitalists relocated production to sites with cheaper and presumably more docile labor, weakening labor movements in the sites of disinvestments, but strengthening labor in the new sites of expansion" (Silver 2003:41)

Similar to many NICs, this second stage of industrial relations in China is viewed as a period of market transition, as the ideas of competition, fragmentation, and globalization had been repeatedly discussed. During this period of time, an emerging belief in efficiency gained prominence, and many firms failed to comply with the regulations of labor protection, if any (Gallenger 2005). SOEs were restructured toward the ultimate goal of efficiency, and as a consequence, many their employees were laid off without appropriate compensation. The state had relaxed its control on SOEs' recruitment, firing, and payment policies. The newly founded private and foreign-invested firms competed in the global market on the basis of low cost and high flexibility, which resulted in the shop floor culture of "time is money, efficiency is life" (Gallagher 2005: 62).

Rising labor problems during this period did not mean that the Chinese state was less effective in regulating industrial relations. To the contrary, it is the state's priority on economic growth that partially accounted for the deteriorating working conditions for the rank-and-file migrant workers. Under the decentralized yet effective performance evaluation system of Chinese officials (Landry 2008), their policy preference had been attracting foreign investment and GDP growth. The enforcement of labor legislation was at odds with economic growth-centered policy measures (Gallagher 1997; Lee 2007). Under such an environment, labor

officials had reported extreme difficulties in imposing fines and penalties on firms for violation of labor standards. Their primary role was to educate employers on the labor laws instead of regulating them (Lee 2007:20). As summarized by Gallagher (2004:20), “The combination of these economic pressures of firms [just-in-time production, low cost, etc.] with the developmentalist orientation of local governments under regional decentralization produces an environment conducive to labor exploitation, with a concomitant lack of emphasis on labor conditions and workers’ rights.”

### **Phase III: the State’s Self-Imposed Change, mid 2010s-present**

The third stage became consolidated since the mid 2010s, when the Chinese state began to address the contentious labor relations that have become pivotal to the stability of its regime. This stage is a reflection of the state’s self-imposed change toward pro-labor industrial relations together with its other policies that attempt to address social inequalities and integration. With respect to industrial relations, after three decades of continuous economic growth at a high speed, workers’ grievances have mounted, and have generated fundamental impacts. For example, in a 2006 national representative survey conducted in urban areas, when asked to rate the extent of conflict between different groups, 45 percent of respondents agreed that the conflict between managers and workers as fierce. The employer-employee tension was rated as even more severe (58 percent). In response to these problems, alongside growing rural-urban disparities and income inequalities, three pro-labor laws were passed in 2007 and took effect starting in 2008: the Labor Contract Law, the Employment Promotion Law, and the Labor Dispute Mediation and Arbitration Law. This legal change indicates the state’s policy shift addressing labor problems.

In addition to the state, the voice of transnational actors has also become an important factor during this stage, as many multinational corporations (MNCs) and labor organizations have begun to address labor standards in China. In the past three decades, foreign investment has been accompanied by deteriorating labor conditions: hazardous workplace environments, below-minimum wages, and physical and verbal abuse prevail. It is against this situation that anti-sweatshop campaigns have arisen, organized by transnational activist networks (TANs), consumer groups, and non-governmental organizations (NGOs). In response, many MNCs in North America and Europe have begun to monitor labor standards of their suppliers in China. The adoption of SA8000—a global social accountability standard for decent working conditions—by approximately 400 Chinese firms exemplifies this global influence. Many other certification systems have been launched in China such as the Business Social Compliance Initiative (BSCI). Many MNCs also hire local Chinese auditors or dispatch their own compliance officers to examine their suppliers' labor standards. Based on a national survey of firms in 2006, 66 percent of firms reported that their clients had labor standards requirements.

### **The State, Globalization, and Academic Professionalization in China**

It has been argued that the academic subculture usually follows the practitioners' subculture, although in a more reflective matter (Barley, Meyer and Gash 1988). This observation is particularly relevant in the development of industrial relations as an academic field. Labor movements and other forms of struggles have underlain the evolution of IR research. The field of IR in the US context arose as a response to labor problems in the early twentieth century (Kaufman 1993; Kochan 1980; Dunlop 1994). For example, Barley and Kunda's (1992) research on managerial ideologies suggests that both movements of industrial betterment (1870-

1900) and welfare capitalism/human relations (1923-1955) took place in an attempt to improve workers' physical and psychological conditions in the context of contentious labor relations. Historical data show that "industrial betterment clearly coincided with a period of increasing unionization and strike activity, ... [and] heightened labor activity may also have fanned interest in human relations during the 1940s" (Barley and Kunda 1992: 387-8).

Labor problems as a research subject have not only affected IR research directly, but have also influenced state policies and even scholars' participation in labor movements, which indirectly affect IR research. A direct effect is the proliferation of free-standing academic units devoted to research and teaching in IR<sup>23</sup> in the U.S. in the 1940s, when labor problems were the number one concern of the country (Kaufman 1993). Institutional economists interested in IR led the professionalization of IR research, followed by spokespersons for the human relations approach who "subsequently molded visions of collective bargaining in directions compatible with the human relations ideology" (Barley and Kunda 1992: 374).

Although not related to labor problems in particular, the Civil Rights movement also reshaped social science research. The founding of African-American Studies departments at many universities is a direct consequence of this movement (Rojas 2006). Indirectly, many university students and faculty participated in the Civil Rights movement and later became academic experts on it. The academic field of collective action therefore has been transformed in the following senses: 1) social movement participants are no longer assumed to be irrational (Smelser 1962), but explained by their interactions with others, identities, and interests; 2) a

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<sup>23</sup> These centers include the New York State School of Industrial and Labor Relations at Cornell, the Yale Labor-Management Center, and the Institute of Labor and Industrial Relations at the University of Illinois.

growing number of social movement organizations have proliferated, led by paid professionals (McCarthy and Zald 1973).

The interplay between social problems and the development of an academic field may be different in China, where a powerful state sets out its agendas, relatively independent of the influence of workers, employers, and professionals. For example, organized labor is not a powerful independent force in China. Even though the Chinese state has begun to react to labor unrest by formulating pro-labor laws and policies in 2007, the lack of effective labor organizations has posed challenges for a research agenda on labor movements, collective bargaining, and union behaviors, the very phenomena that gave rise to the IR field in the U.S. and other countries.

The state influence is also manifested through academic professionals who carry out social science research. It has been recognized that academic professionals are important actors in identifying social problems and proposing solutions (DiMaggio and Powell 1983; Abbott 1988; Guillén 1994). Academic professionals impact policy making by offering their expertise, and in some cases they also become decision makers themselves. Babb (2001:171) documents that U.S.-trained Mexican economists took posts at the highest level of Mexico's policymaking bureaucracy, including the presidential position. Additionally, these economists have also reshaped the academic discipline. They have introduced and disseminated mathematically driven methods and a market perspective on the economy at newly founded private universities.

In the Chinese context, higher education systems themselves are a part of its developmental project. The rapid expansion of the Chinese higher education system and the role of returnee scientists has been well documented elsewhere. What has been overlooked is an increasing number of Chinese social scientists, both working in China and overseas. Indeed, the

Chinese state has been investing in a number of disciplines in social sciences and humanities. For example, research funding for the social sciences and humanities has increased from RMB 13 million in 1990 to RMB 1,196 million as of 2012. Many of the social sciences have maintained a rapid growth in terms of the founding of stand-alone academic units or degrees granted. For example, Master of Business Administration (MBA) programs were first introduced to China in 1991. After twenty years' development, the number of MBA programs had grown from nine to 236. Similarly, sociology departments grew from three in 1980 to 94 as of 2011. University professors have become primary producers of journal publications, largely replacing authors from non-university settings, such as government think tanks and research institutes.

### **International Influence**

In addition to the shaping power of the Chinese state, international influence on academic research is by no means to be underestimated. Given the absence of stand-alone IR academic units in China<sup>24</sup>, an overview of those scholars with PhDs in economics is useful, because economics as a discipline fundamentally affects other social sciences. According to Qiao and Stephen's (2007) research on U.S.-trained economists, between 1991 and 2005 1,754 PhDs in economics in the U.S. were awarded to Chinese students, of which 246 returned to China, and 130 were working at the top 38 universities as of 2007. At Peking University alone, 40 of the 145 economics faculty have a PhD from the U.S., compared to 14 out of 43 at Tsinghua University, and 29 out of 72 at Central University of Finance and Economics. As Table 3.1 shows, for 97 top business schools with identifiable information, there are 525 academic units altogether, of

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<sup>24</sup> The School of Labor and Human Resources at Renmin University is the only stand-alone academic unit that carries on the conventional model of IR research, similar to the School of Industrial and Labor Relations at Cornell. Another example would be the School of Labor Economics at the Central University of Economics and Business (Beijing).

which 121 units can be categorized as economics (including financial economics). Take the top two universities, for example. At Peking University's business school (total number of faculty=107), 40 faculty members are in economics groups including finance (n=22). Similarly, at Tsinghua University (N=164), 59 faculty are in the economics groups (including 29 in finance).

To be sure, not all academic professionals have whole-heartedly embraced professional norms of other countries. In addition, the international influence on academic research and policy making varies over time. Before the neoliberals dominated economics in Mexico, it was the Marxist scholars and policy makers who carried out the ideas of the developmental state (Babb 2001). Even when scholars learn from others, selection, filtering, and adaptation always occur (Westney 1987; Fourcade and Babb 2002). For example, the post-war Japanese scholars and policymakers extended the Ricardian notion of "comparative advantage" to refer to advantages that can be built up rather than those simply based on natural endowments (Gao 1997: 210).

The emulation of a foreign academic system has its positive and negative effects on IR research in China. On one hand, academic communication across borders helps Chinese scholars to improve their productivity, as a higher percentage of them collaborate with US scholars. On the other hand, incentives to publish in selective English-language journals have redirected their attention to subject matters that are less relevant to the realities of IR in China. The net effects of this emulation therefore require a systematic analysis.

### **IR Research from Two Perspectives**

According to Kaufman (1993:59), three events marked the establishment of an IR field in the U.S.: the founding of IR schools and institutes at major universities; the founding of a new

professional association, the Industrial Relations Research Association; and the founding of the first academic journal in America devoted to industrial relations, the *Industrial and Labor Relations Review*. Yet such a parallel development has not emerged in China. The lack of free-standing IR schools, departments, and institutes causes difficulties in identifying IR research. Two growing intellectual communities<sup>25</sup> have contributed to academic research on this field: sociology and human resource management. The perspectives from these two communities capture a broad conceptualization of IR research that investigates employment relationships at both the micro and macro levels of all aspects, such as labor market, labor politics, human resource management, etc. In this regard, the IR research published in two flagship journals is illustrative for our understanding of the state-of-art literature: the *Journal of Sociological Research* and *Management World*. The detailed criteria for selecting these two journals and content coding are in an appendix.

Among the 7,707 articles published in these two journals between 1985 and 2011, 562 articles (7.3 %) are IR-related. A breakdown of this number between the two journals, however, suggests that sociologists are more interested in labor problems than are management scholars. For example, the cumulative percentage of IR articles published in *Journal of Sociological Research* between 1986 and 2011 is 11.6, much higher than that in *Management World* (5.8%). Over time, the percentage of IR articles in these two journals has remained relatively unchanged, and this pattern holds true for IR articles in *Management World*.

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<sup>25</sup> Although institutional economists were the founding fathers of the IR field in the U.S. context, such a parallel is missing in China. This also reflects the global diffusion of today's mainstream economics, which focuses on mathematical modeling and a market-oriented perspective. When Chinese scholars were trained, they were taught the current version of mainstream economics and therefore lacked knowledge of institutional economics. The discipline of political science in China has a relatively late development, especially in terms of empirical research.



The percentage of IR articles published in *Journal of Sociological Research*, however, differs by time. For example, the late 1990s witnessed an increase in IR articles. This observation window coincided with the massive layoff of workers in state-owned enterprises (SOEs). Content analysis of the 19 articles published in *Journal of Sociological Research* in 1995 suggests that nine articles are relevant to employment relations in SOEs. A similar peak took place around the year 2005: 16 out of 53 articles (30.2%) were IR-related. As academic output tackling labor problems, IR articles should be responsive to changes in institutional environments. Another example illustrating sociologists' concern with labor problems is their research on migrant workers, the very labor force that has created the miracle of "made in China." For example, the year 2004 marked a public awareness of labor shortage, which was partially due to deteriorating working conditions for rural-to-urban migrant workers. Five out of seven articles published in *Journal of Sociological Research* that year were IR related. Table 3.1 is a brief summary of the specific topics covered by these 562 IR articles.

[Insert Table 3.1 about Here]

The changing configurations of authors' affiliation have revealed the increasing significance of academic professionals in IR research. In the 1980s and early 1990s, university authors and non-university (i.e., usually government) authors alternately took a lead. For example, the percentage of IR articles by university authors was 22.2 in 1990, much lower than the 27-year average (78.7%). IR articles published during this short period were by many semi-state organizations such as SOEs, showing their commitment to the state agenda of economic growth and political stability. After several years' transition, the year 1995 marked a reversal, with the percentage of IR articles by university authors reaching 73 percent. This trend has been consolidated, as 96.7 percent of IR articles were by university scholars in 2004.

The development of IR research is facilitated by methodological advancement. Surveys, experiments, interviews, archival research, and other methods have greatly improved our understanding of labor problems. In contrast to conceptual discussions or policy narratives, empirical IR articles help specify the magnitude of labor problems and mechanisms to address these problems. Despite the importance, it has been difficult and expensive to conduct empirical research. This pattern, however, differs between *Journal of Sociological Research* and *Management World*. As displayed in Figure 3.1, the percentage of empirical IR articles in *Management World* fluctuated in the 1980s and 1990s. It was not until the early 2000s that the growth rate of empirical research on labor problems became stabilized. In contrast, the percentage of IR articles in *Journal of Sociological Research* is higher (61.9% vs. 45.3% in *Management World*) and maintains a gradual growth (85% since the year 2000). For the 143 empirical IR articles in *Journal of Sociological Research*, 15 are based on archival data, including an analysis of letters of female migrant workers who died during a fire accident at their workplace (Tan 1998). Twenty-one articles are based on qualitative methods, and the remaining 107 articles employ quantitative data (e.g., surveys).

[Insert Figure 3.1 about Here]

This pattern is parallel to the process of professionalization in academia. It took time to accumulate and disseminate knowledge of empirical research. Even if the knowledge and experience of empirical research is available, there may not be strong incentives to spend time and resources to collect data. This was the case in the 1980s and early 1990s in China, when university professors were similar to state employees with life-time job security. Teaching was their primary task, while empirical research was rarely a professional norm or a source of prestige. This system has changed, however, starting in the late 1990s when the principle of

“publish or perish” was introduced and implemented in selected disciplines at top universities. Management led this trend, followed by other social sciences, including sociology. To publish articles in English-language journals and several highly selective Chinese journals has become necessary to survive the tenure evaluation process. In order to publish in these journals, empirical methods become important such as surveys, experiments, and qualitative methods. Additionally, the increase of research funding allocated to social sciences also facilitates this trend.

Figure 3.2 contrasts the percentage of IR articles and the number of labor disputes per 1,000 workers. The number of labor disputes constitutes an effective factor measuring the extent of contentious industrial relations and the associated problems. It has increased dramatically since 2001, especially after 2007 when pro-labor laws were put in practice. Between 1987 and 1996, there were less than 10 disputes per 1,000 workers. The number increased to 20 between the period of 1997 and 2000. Since 2001, incidence of disputes has skyrocketed, increasing from 21 disputes in 2000 to 163 per 1,000 workers in 2010. The percentage of IR research, however, has not increased proportionately.

[Insert Figure 3.2 about Here]

The striking number of labor disputes in recent years, however, does not overstate the stern reality. Stoppages, strikes, and labor disputes have been prevalent in China. Manufacturing workers have not only struggled over the amount of severance compensation, but have also been struggling with “the meaning of labor, the basis of legitimate government, and the principles of a just society” (Lee 2007: 6). These serious issues, however, have not been fully captured by management scholars. An analysis of the content of IR articles in greater detail (Table 3.1), especially those drawing on empirical evidence, reveals that they have tended to concentrate on white-collars employees’ psychological well-being, their individual performance, and team

efficiency. What has been missing among these studies is the meaning of jobs, the legitimacy of labor interests and power, and the proliferation of labor standard campaigns, for example. In contrast, the terms *labor*, *working class*, *conflict*, *grievance*, and *working conditions* are key words for IR articles published by sociologists.

The deepening global integration has facilitated the diffusion and adoption of labor standards. As predicted by neo-institutional sociology, almost all countries have passed employment-related laws and regulations (ILO 2006). An important driving force is MNCs. Propelled by consumer movements, a large number of MNCs have adopted the principles and practices of labor standards. In the absence of systematic data on these MNCs' internal monitoring, the adoption of SA8000, a global social accountability standard for decent working conditions, is illustrative. Figure 3.3 shows that SA8000 diffusion did not give rise to an increase of IR research. It appears that the international influence on IR practices has not drawn enough scholarly attention, at least in the form of publication.

[Insert Figure 3.3 about Here]

### **Founding IR Academic Units from Scratch?**

Because there are so few stand-alone academic units devoted to IR research, the previous section has summarized IR research published in two flagship journals. This section shifts a perspective to sociology and human resource management programs to examine how these two different intellectual communities have established a basis for founding of stand-alone IR academic units.

The development of both sociology and human resource management in China has been facilitated by both the state and international collaboration. For example, the founding of the

first sociology program after the communist period (1949-1976) gained support from Deng Xiaoping and other government officials in charge of social sciences. With few sociological experts<sup>26</sup>, the workshops and seminars organized in the early 1980s featured lectures by prominent overseas scholars. For example, Peter Blau, Nan Lin, and Ching Kun Yang were actively engaged in different workshops, and there was a one-year intensive and highly selective training program consisting of college students from other social science and humanities majors. More recently, many sociology departments in China have consolidated collaboration with overseas scholars. For example, the Sociology Department at Peking University has organized an annual summer training program with the University of Michigan on quantitative methodology since 2006. Even the arguably sensitive topics such as social movements and collective action have seen scholarly collaboration. For example, the Sociology Department at Renmin University organized a summer program on collective action in 2007, lectured by prominent US sociologists such as David Snow, Mayer Zald, and John McCarthy.

The founding of management schools were also supported by state initiatives and international influence. For example, as a stand-alone management school, the China Europe International Business School (CEIBS) was launched through collaboration between the Chinese government and the European Commission in 1984, which was officially established as an independent international business school in 1994 in Shanghai. Its training materials, methods, and faculty members were all “foreign”, although localization has become a heated debate recently. This strong international imprint is still observable today, as all of its ten faculty

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<sup>26</sup> Xiaotong Fei is regarded as the founding father of sociology in contemporary China. From 1936 to 1938 he studied at the London School of Economics under Bronisław Malinowski. Like many intellectuals, his academic career was interrupted during the socialist era, especially when sociology was eliminated as a discipline from universities. His connections and influence have been important for the reestablishment of sociology since 1980, but the teaching and research tradition was largely shaped by several prominent overseas scholars.

members in human resource management received their PhDs from overseas institutions. Even other top management programs that are affiliated with universities have also displayed a mixed imprint of the state and the international influence. Take the Guanghua School of Management of Peking University, for example. Two out of the three deans<sup>27</sup> are economists receiving their PhDs from top overseas universities. Out of its 114 full-time faculty, there are 78 professors (68.4%) who received PhDs from overseas universities. In its equivalent human resource management group, nine out of 13 faculty members (69.2%) received their PhDs from overseas institutions.

Given the active role played by the state and international influence in the development of sociology and human resource management, what might be expected for a future development of an academic field of industrial relations? With respect to the state, to be sure, the Chinese state established and funded the China Institute of Industrial Relations (CIIR) in 1954, supervised by the All China Federation of Trade Unions (ACFTU). CIIR is a specialized university focusing on industrial relations. Because a large number of its graduates are now working in trade unions and labor bureaus at different levels, CIIR has become an incubator for government officials who participate, interpret, and disseminate labor policies. This university, however, has remained as a teaching institution for many years. For example, after nearly half a century, CIIR still has not gained permission to grant PhDs, which lags behind a majority of universities. Another such state effort is the founding in 1983 of the School of Labor and Human Resources, affiliated with Renmin University as a training center; later on it became an academic unit in 2000. This state effort stayed at that stage for a long time until 2011, when the first large-

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<sup>27</sup> To be more accurate, there was an interim dean, Zhipan Wu, between the transition from the first to the second dean. This position was rather symbolic for him, as he was in charge of social sciences at Peking University at that time and acted as a liaison to fill a temporary vacancy.

scale meeting about forging harmonious industrial relations was held. In the same year, Renmin University started to offer PhDs in industrial relations<sup>28</sup>. Such efforts continued, as the major in industrial relations was explicitly listed as a secondary category under the primary category of business administration in 2012. In the same year, a conference consisting of prominent academic scholars, policy makers, and labor bureau officials was held, which further laid out the development of IR as an academic major, a research field, and a stand-alone academic unit.

The caveat regarding this recent state effort, however, is the potential misalignment between the goal and the necessary resources. The preliminary layout of the IR development plan was to locate IR as a subcategory of business administration or management. The publication records described above, however, suggest that management scholars had contributed a smaller proportion of IR studies, at least between 1985 and 2011. In this respect, their knowledge accumulation regarding IR research was less, compared to sociological counterparts. In addition, management scholars, especially those specializing in human resource management, have applied their expertise to well-paid consulting activities, as indicated by their WebPages and media reports.

Additionally, many top business schools in China have led other social sciences in institutionalizing a tenure system that emulates a typical US system, ranging from recruiting to promotion. For example, the faculty profiles at top human resource management programs are illustrative. Seventy percent of faculty in human resource management at the top four business schools— Peking University, Tsinghua University, CEIBS, and Cheung Kong Graduate School of Business (CKGSB)—received their PhDs from overseas institutions. These and other top

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<sup>28</sup> There were PhD programs that focused on human resource management, labor economics, management, and other relevant topics. But with respect to granting PhDs, there was no PhD in industrial relations until 2011.

management programs have begun to use publications in peer-reviewed English-language journals to evaluate their faculty. Although there does not exist a universal list of such journals, many business schools share information and emulate each other's behavior. A list of 176 English-language journals from a flagship business school is informative. Among these 176 peer-reviewed management journals, 83 can be broadly categorized as general management. Only 11 are indeed IR-oriented. Moreover, all these journals are ranked as either first or second tier, which assigns different weights to quantify a faculty member's performance. Needless to say, first-tier journals are given a greater weight. Only two out of these 11 IR-related journals are ranked as first-tier, *Journal of Labor Economics* and *Journal of Applied Psychology*. The flagship journal in IR, the *Industrial and Labor Relations Review*, is only ranked as second-tier.

A closer look at faculty research at top human resource management programs suggests that psychology-trained scholars are the majority. Most of their research includes using data collected in China to test psychological theories developed in the US context. Chinese culture is often invoked as an explanatory factor. Their primary research context is semi-professional settings such as R&D personnel, managers, and other white-collar employees in large corporations. They tend to examine micro-level dynamics such as individual well-being, teamwork efficiency, group performance, compensation, and incentives. Methodologically speaking, most of their research relies on surveys conducted in MBA classes or originates from consulting services they provide for firms. In addition to publishing in *Management World* and *Management and Organization Review*, an English-language peer-reviewed journal recently issued by Chinese scholars, academic journals in psychology, human resources, and international management are major outlets for their academic work.



Although these international impacts have greatly advanced theoretical understanding as well as improved practices, these influences (which themselves reflect the changing industrial relations in advanced countries) have run ahead of the reality of industrial relations in China. As with all countries going through industrialization and urbanization, China's ongoing labor problems provide a fertile ground for the development of the IR field. A large number of rural-to-urban migrant workers have constituted the labor force of manufacturing and service sectors. Without well-established community roots in urban areas, these migrant workers usually settle in factory dorms, a specific labor regime in many NICs (Lee 2007). Trade unions beyond the factory level are de facto government agencies, delivering policy messages. A large proportion of union leaders at the factory level are indeed managers, usually human resource managers, CEOs, or even firm owners themselves. The voice of ordinary workers has been overlooked. Given such a political environment, organized labor may have taken a different shape and may therefore raise unique research questions. All these factors have generated different dynamics and require a context-specific understanding.

In reaction to this call for a context-specific research paradigm, although the reestablishment of sociology in contemporary China was deeply influenced and facilitated by some prominent overseas scholars, this discipline has maintained a balance between international influence and the adaptation to ongoing China-specific social problems. In order to justify the existence of sociology, Chinese sociologists have stressed the notion of "problem consciousness." Driven by this problem orientation, sociological research in China is concentrated in three areas: social stratification and mobility, community construction, and internal rural-to-urban migration (Wu 2009). In addition to its problem orientation, Chinese sociology is also well connected to an international academic community. At the early stage of its reestablishment, US scholars such as

Peter Blau were invited to educate the first generation of Chinese sociologists. Research on Chinese society and economy by U.S. sociologists (e.g., Victor Nee and Andrew Walder) in the 1980s and 1990s has deeply influenced social scientific studies of contemporary China (Li and Tsui 2002). If anything, the call for public sociology as a reflective opinion about what has been happening in the U.S. (Burawoy 2004) is also discussed and debated by Chinese sociologists.

The faculty profiles at 19 PhD-granting programs in sociology suggest that industrial relations have been one of the main subfields in terms of the number of faculty members working in this area, the advancement in methods, and citations to relevant literature. This observation is also confirmed by the publication records in the *Journal of Sociological Research* between 1986 and 2011. For example, sociologists at Sun Yat-Sen University have become a major contributor to IR research. Sun Yat-Sen University is in Guangdong province, where early economic development was accompanied by contentious labor relations as well as transnational private regulation of labor standards. In other words, proximity to labor problems has stimulated the faculty's empirical research (e.g., surveys and case studies) on migrant workers, strikes, labor movements, labor NGOs, etc. The four top sociology programs, at Tsinghua University, Peking University, Renmin University, and the Chinese Academy of Social Sciences (CASS), are all concentrated in Beijing. Together, these four programs contributed about half of the IR articles published in the *Journal of Sociological Research*.<sup>29</sup> Increasingly, top sociology programs in Hong Kong have become another major source of a sociological understanding of industrial relations. A closer reading of citations of the IR articles published in this journal suggests 1) the rise of a Chinese intellectual community of IR research from a sociological perspective; 2) an

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<sup>29</sup> In the early years, scholars from CASS were more active in IR research. Later on, with the professionalization of sociology as well as the development of its flagship journal, the *Journal of Sociological Research*, CASS scholars, being at the institute managing this journal, began to be published by it less often.

acknowledgement of the mainstream literature on migration (i.e., citations to Alejandro Portes' work) and adaptation of this literature to the Chinese context, i.e., rural-to-urban migrant workers; and 3) a rediscovery of labor process theory and a perspective of labor politics, indicated by citations to Michael Burawoy (1979, 1985), Gay Seidman (1994), and King Kwan Lee (1999, 2007).

In summary, in order to promote the founding of stand-alone IR academic units, a strategic use of existing resources is necessary. The importance and visibility of human resource management have been captured by the institutional entrepreneurs who are in the process of establishing an IR field in China. As elaborated above, however, the pivotal role of sociology in this institutionalization process needs to be seriously considered. Sociologists have accumulated solid knowledge and collected rich data regarding industrial relations, as suggested by their publication records. In addition, compared with human resource management scholars with alternative domains to claim and in which to exercise their expertise, i.e., management consulting, sociologists may have greater incentives to invest in an emerging field of industrial relations.

The contrast of sociology and human resource management serves an analytical purpose. It by no means implies or suggests that one field should take the lead vis-à-vis the other. Rather, scholars in these two fields, together with a handful of experts on industrial relations at Renmin University and the Capital University of Economics and Business, should work in a concerted way toward the founding of an IR field. After all, the relatively exclusive attitudes of institutional economists as the founding fathers of the U.S. IR field partially explain why human resource management (then "personnel management") scholars moved themselves to business schools, which constituted one of the major factors accounting for the decline of the IR field.

This lesson points to the importance of an integrated approach to industrial relations, and therefore invites cooperation instead of competition for a professional jurisdiction.

### **A Concluding Remark**

China's rapid economic growth, dramatic social changes, deepening global integration, and many "big projects" in science and social sciences have created an ideal research setting to examine the evolution of the IR field. Rich archival data are available to examine IR research and its institutional backgrounds. IR research in China, however, has been less responsive to rising labor problems. The state inaction (at least until recently) and an international paradigm of IR research constitute two important factors explaining why development of an IR field in China did not take place in a way parallel to what occurred in the U.S. between 1945 and 1960 (Kaufman 1993).

Despite this general mismatch between IR research and labor problems, Chinese sociologists have devoted considerable attention to migrant workers and those laid off by SOEs, the two largest groups of aggrieved laborers in China in the past three decades. In contrast, management scholars are more interested in white-collar employees in semi-professional workplaces. This difference is partially because the conventional IR field in the U.S. has been divided into two distinct sub-spheres, and Chinese emulators have focused more on the sub-sphere of human resource management. Meanwhile, with the decline of manufacturing jobs and the IR field's internal divergence, the number of IR academic units in the U.S. has decreased. In contrast, a large number of business schools now house a concentration in human resource management. This unfortunate divergence has not only bothered IR scholars (Kaufman 1993),

but has also created a puzzling template for Chinese management scholars, whose training has been narrowly focused on professional and semi-professional workplaces.

Sociology, in contrast, has maintained a balance (deliberately or not) between its learning from its US counterparts and its roots in ongoing labor and social problems in China. On one hand, IR articles in *Journal of Sociological Research* have tended to speak to China-specific phenomena such as SOE layoffs and migrant workers. On the other hand, an increasing number of IR articles have turned to mainstream sociological literatures in the U.S. as a theoretical motivation. For example, the literature on migration has resonance in both the U.S. and Chinese settings, although their broader institutional contexts are very different: the US context is marked by racial and ethnic integration while the Chinese context is represented by the rural-urban divide.

The recent state effort to develop an IR field through founding stand-alone academic units has created a great opportunity for a handful of IR scholars in China, for sociologists with incentives to expand their professional territory, and for human resource scholars, too. Unlike many management fads that diffuse quickly, the founding of IR academic units at different universities would take at least several years. This diffusion process is contingent on a number of factors, including continuous state sponsorship, intellectual support from elite IR programs in overseas universities, and a concerted effort by social scientists in China. It is too early to predict potential developments here.

The description in this chapter and this ongoing project make several contributions. First of all, focusing on China helps us to better understand the role played by the state in shaping knowledge production and professionals. The Chinese state has maintained a watchful eye on professionals, leaving them less autonomy to engage with social problems. The interaction

between labor problems, the state, and professionals thus has been conditioning how the academic field of IR develops.

Secondly, this project also helps in reconsidering global norms in knowledge production. Academic globalization may be an inevitable trend (Babb 2001; Fourcade 2009), although social sciences are historically more context-specific. As the US template of social sciences has increasingly impacted NICs, how scholars make sense of their research, identities, and involvement with their research subjects has become problematic. The development of academic professions in general and the field of IR research in particular have a short history in China. The year 1995 not only marked a rapid expansion of higher education, but also characterized the beginning of academic professionalization. Since then, a Ph.D. from an overseas university has become a precondition to be hired by top business schools in China; although sociology started late, it has been displaying this trend in recent years. Management scholars' performance evaluation has relied on the count of papers published in selected English-language journals. In many respects, the training, evaluation, and promotion in academic fields have been misaligned with the Chinese context.

Returnee social scientists are everywhere, and everywhere they have advocated science-building efforts. But even within the U.S., there is a repeated call for integration between academic and public audiences. For example, at the 2004 annual meeting of the American Sociological Association (ASA), Michael Burawoy devoted his ASA presidential address to public sociology, encouraging a dialogue between sociologists and audiences beyond the academy. While the Chinese academics are chasing the US template (which itself has been evolving), how to balance the pursuit of an autonomous academic profession and the deeply entrenched concerns over locally specific social problems has become a challenge.

Finally, this project has a great potential for examining the role of the market itself in influencing professionals and knowledge production. In many respects, the current description focuses on the question of why China does *not* have a large academic field of IR, given the rising labor problems. Although the recent state effort may create different incentives, political spaces, and social resources for establishing stand-alone academic units, a market for students majoring in industrial relations as well as a market for established scholars' consulting services is less foreseeable. Without such a market for expertise in industrial relations, the state effort itself, even combined with international influences, may not be enough to institutionalize an academic field.

### **Limitation**

This chapter has its limitations. First of all, because this research relies heavily on a wide variety of archival data, data availability on some key issues is less than ideal. For example, statistics on strikes will be an index of contentious labor relations. However, this kind of information is not released by the Chinese state. Secondly, the academic professionalization is still underway in China. Many universities, especially those lower-ranked, have not displayed their faculty members' CVs, making unavailable some important information, such as their career development. Finally, managers with MBA training from business schools have not fully developed as a profession, nor are their opinions available in a systematic format. Reflection by IR practitioners is not yet in evidence. These limitations may be better addressed in the near future, as both the academic professionals and practitioners further develop and government information becomes readily available.

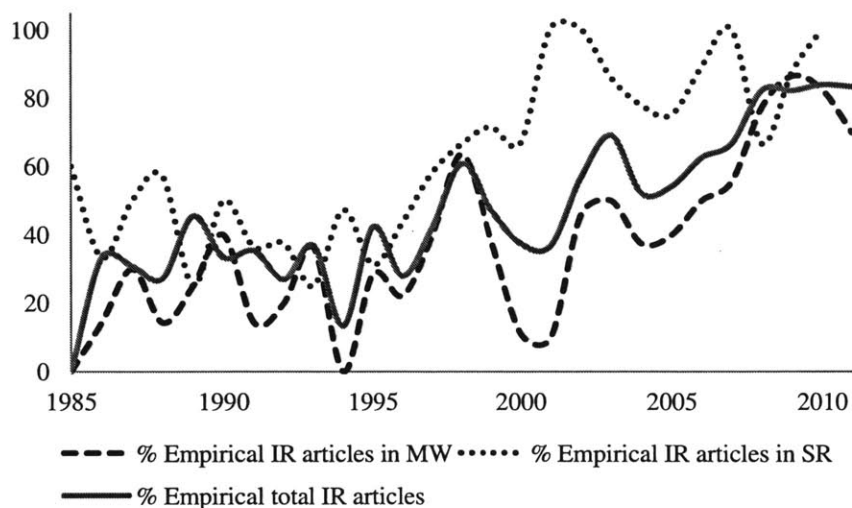
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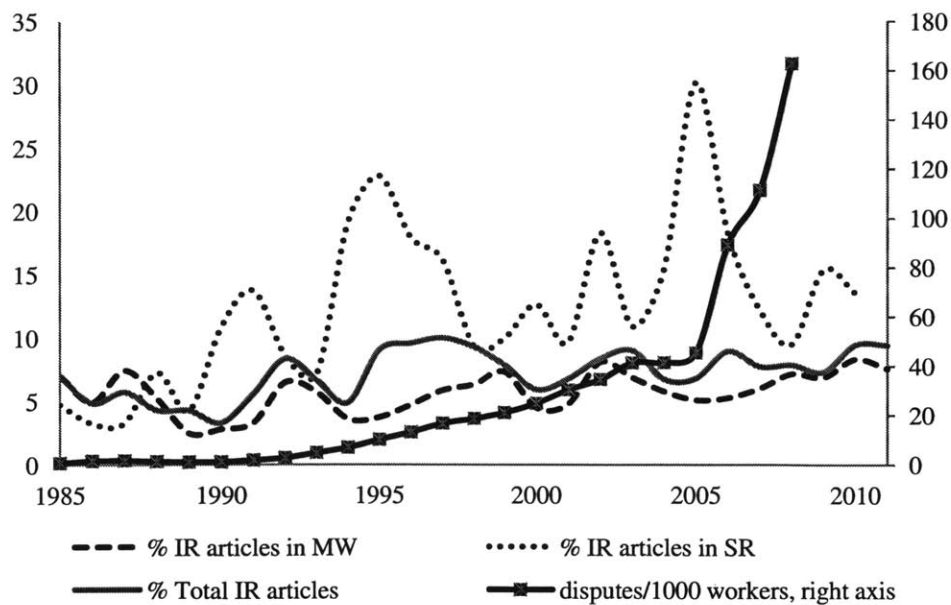


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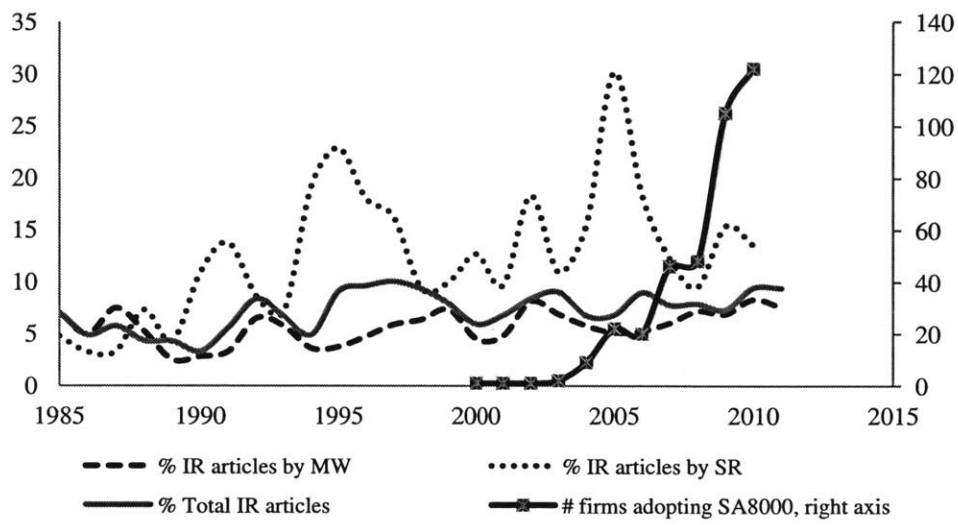
**Figure 3.1: Percentage of IR Articles based on Empirical Data**



**Figure 3.2: Percentage of IR Articles and Disputes per 1000 Workers**



**Figure 3.3: Percentage of IR Articles and Number of SA8000 Certificated Facilities**



**Table 3.1: Topics of IR Articles**

<b>Topics</b>	<b>Two Journals</b>	<b><i>Journal of Sociological Research</i></b>	<b><i>Management World</i></b>
Migrant workers	82	63	19
SOE	55	39	16
Working class	14	12	2
Insurance	59	38	21
labor market	94	25	69
Gender	15	12	3
Evaluation	9	0	9
HR	42	0	42
International	13	0	13
Job mobility	11	0	11
Labor standards	3	0	3
motivation	25	0	25
Managers	21	0	21
Salary	31	0	31
satisfaction	11	0	11
Others	76	42	34
<b>Total</b>	<b>561</b>	<b>231</b>	<b>330</b>

## Appendix A

According to the Chinese Social Sciences Citation Index (CSSCI) developed by Nanjing University, the cumulative impact factor of *Journal of Sociological Research* was 4.288, ranked number five among 1,200 Chinese-language academic journals, including science and engineering journals. *Management World*'s impact factor was 1.713 as of 2011, ranked 89<sup>th</sup>. In addition to impact factor, there is a well-acknowledged list of core journals, adopted by Chinese universities to evaluate their faculty's work. *Management World* is one of the two first-tier core journals in management. The other such journal is *Economic Research*, a journal with a strong disciplinary concentration in economics. As acknowledged elsewhere (Babb 2001), economics has become a globally standard academic field. Its research methods, concerns, and topics are fairly similar across different cultural and political contexts. In this regard, the journal *Economic Research* does not reveal much regarding China-specific theories and assumptions of IR research. I therefore rely on *Management World* for IR studies by management scholars.

In general, the selection of *Journal of Sociological Research* and *Management World* has the following rationale. First, both journals are well-established, founded earlier than many social science journals. A relatively longer history provides more information about the interplay between labor problems, scholarly accounts, international influence, and state intervention. *Management World* was established in 1985 by the Development Research Center of the State Council, a think tank of the Chinese central government. It was originally a bi-monthly journal and became a monthly journal in 2002, publishing work on theories, policies, methods, practices, and history of general management in China. *Journal of Sociological Research* was founded in January 1986 by the Chinese Academy of Social Sciences. It is a bi-monthly journal, publishing work on social theories and empirical studies. Secondly, compared

with many other journals, these two journals present general themes in social and economic domains. A comparison of IR articles with other articles published in *Management World* is informative. The same situation applies to *Journal of Sociological Research*.

In order to illustrate how I analyzed IR articles published in these two journals, I use *Management World* as an example. I have this journal coded from 1985 to 2011 (only the first four issues of 2011 are available in an electronic database). In its past 27 years, there are 6,161 entries of articles, comments, book reviews, or announcements published in this journal. Among all these entries, 5,716 are indeed related to scholarly and policy discussions. The remaining 445 entries include conference announcements, book reviews, and other matters, which do not reflect intellectual or policy orientations, and are therefore excluded from my data analysis.

These 5,716 articles could be roughly categorized into two types. One type is two-page articles and the other is articles between 10 to 20 pages. Needless to say, long articles are more likely to employ empirical data, while the short articles tend to focus on summaries. Because this essay is about how IR research has evolved in China, both short and long articles could be informative and therefore are all included in data analysis. The same procedure was applied to data coding of *Journal of Sociological Research*. Between 1986 and 2011, there are 2,585 entries, of which 1,991 are short or long articles, while the remaining 594 include book reviews, conference announcements and other non-academic pieces. Altogether, these 7,707 (5,716 in *Management World* and 1,991 in *Journal of Sociological Research*) constitute my primary sample of data coding.

In order to check the reliability of these coding principles, I compared my results with a published summary in *Journal of Sociological Research*. The summary by Wei and Xing (1996) analyzes all articles published in *Journal of Sociological Research* between 1986 and 1995.

According to them, there are 988 articles, not including book reviews or conference announcements. My coding generated 984 articles for the same period. The overlap rate is 99.6%, a strong indicator of the reliability of my coding.

In order to create a list of IR articles, I read titles and abstracts of all these 7,707 articles to decide whether they were related to IR studies. For many articles without very informative titles and abstracts, I read the complete text to better understand the content and topic. I am particularly interested in the frequencies and underlying assumptions of research on industrial relations, human resources, work, occupation, social insurance, etc. Following this broad definition of IR and its application to the Chinese context, I coded each of these 7,707 articles by specifying whether it is about IR research (dichotomous variable). For each IR article, I read the complete text and tried to understand its specific topic.

Because social sciences have a short history in China and have not fully grasped empirical research methods, I created a dichotomous variable indicating whether an IR article employs empirical evidence or not. For an article that relies on first-hand data such as survey data and interviews, it is easy to categorize it as an empirically driven study. For some articles that merely discuss a concept, a practice or a policy without including empirical evidence, I coded these articles as not empirically driven. A caveat is that some articles use aggregate-level data to examine a phenomenon but do not proceed to discuss its causes, processes, and consequences. For example, some policy-related articles use census data to illustrate that unemployment has become an issue, but do not carry out data analysis to project the number of jobs created by the policies in question. For such an article that uses quantitative data for describing instead of analyzing phenomena, I coded it as non-empirically driven.

Authors' affiliation constitutes another important indicator. For each IR article, I coded its authors' affiliation into a dummy variable: whether the authors come from universities or not. For a single-authored article, if its author works at a university, I coded her affiliation as university. For an article with two authors from different affiliations, if one author is from government, the coding for this article is non-university. In some cases, if an article is written by a university professor and a non-university or non-government person, it was coded as university. For articles with more than two authors, the rule of majority applied.

In addition to *Management World* and *Journal of Sociological Research*, other information is crucial for understanding institutional contexts of IR research. One important source of information is labor problems, i.e., the basic statistics such as how many people are actively in the labor force, who they are, and what they do. *China Labor Statistics Yearbooks* provide information on these matters.

The strong state in China has played an important role in shaping industrial relations. Its industrial policies and its stances towards workers vis-à-vis employers serve as a foundation for understanding IR research. *People's Daily* as a newspaper delivers the Chinese state's propaganda. It covers 10 themes, ranging from mathematics/physics/mechanics/astronomy to economics and management. Three themes are relevant to IR: politics/military affairs/law, education and social sciences, and economics and management. The percentage of reports on IR reflects the extent of attention the Chinese government gives to industrial relations. The past 12 years' full-text reports are available in an electronic database. For each year, I checked the three themes and specified keywords including labor, workers, employees, staff, employment and



relations (worker/employee/staff and employment/labor and relation)<sup>30</sup> to search the full text. I calculated the percentage of IR reports of the total number of reports covered by the three themes each year. This becomes an indicator of the state's policy orientation to industrial relations.

Surveys on relevant IR topics have proliferated. Although longitudinal survey efforts on IR per se are rare, second-hand data collected by many scholars, could provide insights into how workers, managers, employers, scholars, and state officials understand and interpret the problems pertaining to IR.

In order to understand international influence, I used archival data, surveys, and research reports on labor standards, third-party certification systems, and MNCs' disclosure are used. For example, the official webpage of SA8000 discloses the list of certified facilities in China. This list provides a measurement of international influence on IR practices in China. Other sorts of information, such as large MNCs' reports on their monitoring efforts in China, are also utilized.

Websites of business schools, sociology departments, faculty's curricula vitae, and other journals are also useful. The journal *Management and Organization Review (MOR)* provides additional information on the field of IR in China. Founded by the International Association for Chinese Management Research (IACMR), *MOR* started to publish articles in 2005 in English and now its Social Sciences Citation Index's (SSCI) impact factor has reached 2.806, ranked 22<sup>nd</sup> among all 140 English-language management journals in 2011. The authors who have published in *MOR* have become a primary mentoring and collaborating source for the burgeoning management scholarship in China, especially in human resource management. During its 10-year history, five Chinese scholars have served as president, all of them having received a PhD in management-related fields in the U.S. All are in the field of human resource management,

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<sup>30</sup> The search keywords in Chinese include: 工人/员工/职工 and 劳动 and 关系

adopting a micro-level perspective and employing experiment and survey methods. Their intellectual imprint on IR research in China is by no means to be underestimated.

## CHAPTER 5

### **Concluding Remarks on Industrial Relations in China**

As outlined in the introduction and elaborated in the following three empirical chapters, this dissertation systematically investigates three important actors in the field of Chinese industrial relations. Although these three essays employ different data sources, they have a shared interest in the local adaptation of global paradigms. Their findings suggest that global integration has thus far offered great opportunities for China's economic and social development. The diffusion of many global standards, such as decent working conditions (chapter 2), export-oriented strategies (chapter 3), and the underdeveloped academic field of industrial relations (chapter 4), has created many manufacturing jobs, improved public awareness of labor standards, and advanced scientific knowledge. The most recent several years, however, have seen challenges to the sustainability of these global standards. My dissertation documents the importance of local contexts in accommodating these global standards, and suggests an alternative approach to a sustainable development. Below I will summarize my arguments in each of these three essays.

The first essay (chapter 2) examines the diffusion of global labor standards in China. Rather than focusing on MNCs and the Chinese state as driving forces for decent working conditions, this essay emphasizes a local informal institution complementary to the lack of independent trade unions. I argue that, as with ethnic ties among immigrants in the US context, native-place networks among rural-to-urban migrant workers in China have established strong solidarities among them, which reduce labor abuses but constrain to some extent workers' economic opportunities to some extent. These findings call for a balanced view of global labor

standards and local labor organizations. Without the diffusion of global labor standards, workers' protest may not be supported or tolerated by the state and is less likely to be effective. Without local informal institutions organizing workers, global labor standards are difficult to implement and to sustain in China.

The second essay (chapter 3) highlights the domestic market as an alternative to export-oriented developmental policies. Taiwanese firms started original equipment manufacturing (OEM) for the export market in the 1970s, a typical pathway of NICs' global economic integration along production networks. When they encountered the typical sustainability challenges (especially rising labor costs) of this export-oriented policy paradigm in the late 1980s, they moved to mainland China and continued the same strategy. After about twenty years, similar challenges emerged in China, which propelled these Taiwanese entrepreneurs to relocate to low labor cost regions. In contrast to these Taiwanese entrepreneurs, embedded in the export market, domestic apparel firms in the same location explored the domestic market, moving up the value chain by distributing their own branded clothes. Hence, they have been less constrained by sustainability challenges like currency appreciation and labor costs. These findings do not mean that global economic integration is unimportant. Without foreign investment and global buyers, domestic entrepreneurs will not be able to benefit as much from the local apparel center's economic externalities. Without the possibility of entering the domestic market, firms like the Taiwanese ones, subject to the current sustainability challenges and to a fluctuating export market, may tend to fail, causing a hollowing-out process in local economies.

The third essay (chapter 4) explores the professionalization process of Chinese social scientists interested in industrial relations. Content analysis of more than 7,000 publication records in two top Chinese-language academic journals during 1985-2011 suggests that the

academic research on industrial relations in China has lagged behind rising labor problems. Additionally, IR research is less responsive to the state and transnational private regulation of labor standards. These general trends, however, differ between sociologists and management scholars. Sociologists are more likely to engage in IR research, especially on two important phenomena during China's economic reform: those laid off by SOEs and migrant workers employed in private and foreign invested firms. In contrast, management scholars tend to examine motivational factors that improve team performance in semi-professional workplaces. I argue that an integration of both perspectives is important for the development of an IR field in China, especially given the recent state effort to establish stand-alone academic units devoted to IR research.