

WORKER'S INFLUENCE ON WAGE DETERMINATION

-

**Report of the 7th Round of Labour
Inspection in China for**

STORMBERG

by **CHEN WEI**¹

September 2011, Oslo

¹ Mr. Chen Wei is currently working for the Norwegian Confederation of Trade Unions (LO-Norway) as senior advisor and economist. He undertook this assignment for Stormberg on a private basis. The opinions and conclusions presented in this report are solely his own, without any reference to the opinions and policies of the Norwegian Confederation of Trade Unions (LO-Norway).

1. THE INSPECTION

The 7th round of unannounced labour inspection was carried out at the end of August 2011.

Table 1-1: The 7th round of labour inspection – participating factories

| Factory | Belonging Export Company | Inspected before ? |
|--------------------------------|--------------------------|--------------------|
| Ningbo Ninghai | CAC Ningbo | Yes |
| Lixing | | |
| Ningbo Zhi You | CAC Ningbo | Yes |
| Ningbo Ji Jin Clothing Factory | Ningbo Hisen United Exp. | No |

In addition, separate meetings were conducted with:

- Mr. Hab Chen and Ms. Zhao Jing, from CAC
- Ningbo Municipal Trade Union Council

The topics in focus for this round of inspection are:

1. Collective wage bargaining in China
2. Wage formation scheme among Stormberg’s suppliers (A case study)
3. Worker’s influence on wage formation at macro and micro level:
Current status and development outlook



2. TOPIC IN FOCUS 1: THE COLLECTIVE WAGE BARGAINING IN CHINA

2.1 Wage determination: individually or collectively

In Norway the wage income is to a larger extent determined through collective bargaining. The collective agreement coverage is over 70 percent of the total employment.

In China the wage income is to the largest extent determined individually, between the individual employees and their employers. The employer's management right ("styringsrett") on wage is dominating, and workers' influence on their own wage incomes is limited.

While Norway has no mandatory minimum wage standards, China has established regional **mandatory minimum wage standards**. In many cases, the regional mandatory minimum wage standards are determined through tripartite consultation with participation from the local authorities, trade union organisation and employer representatives. As a bottom line, the regional minimum wage standards are in many cases collectively determined.

2.2 Upsides and downsides

Taking the following two cases into consideration:

The first case is an absolute market model when the labour market is totally left to "the invisible hands" (market rules). There is no regulation, and the wage formation is decentralised and individually determined between individual employees and their employers. The American labour market model contains most of this character.

The second case is a regulated labour market model. The labour market is highly organised and regulated by laws and collective agreements. The wage formation is mainly centralised, combining with some local and individual elements, and determined through collective bargaining. The Nordic labour market model can be best characterised as such.

As the results of these two cases, the labour markets can be **equally efficient** in both cases – in terms of high employment and low unemployment. The major difference in outcome between these two models will be **the income disparity**.

The Chinese labour market lies somewhere between the above-mentioned two cases. The labour market is on the one hand increasingly regulated by laws and

rules. On the other hand, the wage formation is still to a larger extent left up to employees and employers to settle individually between themselves.

The Chinese labour market is therefore less efficient on the one hand. The income disparity problem is on the other hand quite severe. There are huge income differences between urban and rural areas, between different industries, between labour and capital, and between different employee groups.

The Gini-coefficient², which measures income disparity within a society, is 0,65 for China, comparing to 0,24 for Norway. The income disparity between different industries was elaborated in the Inspection Report for 2009. In fact, the income disparity issue has become one of the biggest concerns among the Chinese people. The Chinese government and the Chinese trade union are concerning about this problem too, being afraid of letting it become a source for social unrest. This is the main reason for the Chinese government and trade union to launch the idea of “building up a harmonious society” and “building up a harmonious working life”.

2.3 The reality of collective bargaining

The collective bargaining system (or “the collective consultation” as the Chinese call it for) has been adopted and driven forward top-down for more than one decade. The current situation for collective bargaining and collective agreements is not promising:

* Although the amount of enterprises where the collective bargaining formally takes place and the amount of collective agreements is huge, the coverage of collective agreements is still very low. Most of the concluded agreements are more or less sleeping documents, and the collective bargaining is more a formality than real negotiation. The coverage of collective wage negotiations and collective wage agreements is even lower. Less than 20% of the organised enterprises have collective wage negotiations and collective wage agreements.

* The collective bargaining is carried out mainly at the enterprise level. The collective agreements are mostly enterprise-based. Branch agreements or regional agreements are not developed at a large scale.

* The collective bargaining and agreements concentrate in the public sector and among the state-owned or state-controlled enterprises. The collective bargaining has little penetration in the private sector.

² A Gini-coefficient is between 0 and 1. The bigger income inequality is, the closer figure moves towards 1. The figures presented here are from the World Bank 2008.

2.4 Challenges and problems

There are several problems or challenges in association with the current collective bargaining scheme in China and its implementation:

* *The legal basis*

Since 1994, several laws and regulations have touched upon the collective bargaining issues – the Labour Law, the Trade Union Law, the Labour Contract Law and the Provisional Regulation on Collective Wage Consultation (at ministerial level). However, these relevant laws and rules provide mainly a framework for collective bargaining. They are too general, too principle and little operational for carrying out collective bargaining in practice. It is therefore desirable to have a specific law for collective bargaining in the future.

There is still no legislation for a **dispute solving mechanism** in connection with the collective bargaining and collective agreements, such as a mediation system and an arbitration system for the collective labour disputes.

Lack of a clear legal definition of **strike** in the legislation expropriates the negotiating parties of the possibilities for legal industrial actions.

* *Industrial relations*

The **roles** of the parties are not clearly defined. An open question is: who should do what. In Norway, the roles of the parties (partsforhold) are clearly defined in the basic agreement (hovedavtale), and are broadly accepted and respected.

The state calls for wage negotiations at a larger scale. As mentioned above, the state hasn't managed to provide with adequate legal basis for collective bargaining and dispute solving, which makes the collective bargaining less operational.

The employers are loosely organised in China. The employer organisations are unable to be representative and effectively bind enterprises. The employer organisations are not working as a party in the collective negotiations. While most of the collective negotiations are being conducted at the local/enterprise level, the general attitude among the employers is unfortunately quite negative towards collective bargaining, especially towards collective wage negotiations. Thus, the biggest problem of employers is “being unwilling to negotiate”.

The employees are relatively well organised. The trade unions are most eager at the collective bargaining among all three parties involved. However, when union shop stewards in the enterprises are supposed to represent the employees and

negotiate with the employers, they are often afraid of negotiations – bearing in mind the fact that they get their salaries and jobs from the enterprises. Even when they are in the position of negotiation, the lack of capability and knowledge in addition to asymmetric information, will become a big problem. Thus, the biggest challenge for the trade unions is “being afraid of negotiation” and “being unable to negotiate”.

2.5 What is next?

The **demand** from the workers for a more just income distribution is getting stronger and stronger. The gap between the current income distribution scheme and what the workers want is still huge.

In spite of the above-mentioned problems and challenges, the Chinese trade union (ACFTU) has decided to further promote the collective wage negotiations at a much larger scale. ACFTU has established an ambitious target: by the end of **2013, 80%** of the organised enterprises shall be covered by the collective wage negotiation.

It is foreseen that a strong focus will be put on the state-owned enterprises, multinationals and big private companies. SMEs may be left to the end. However, it is no doubt that more and more enterprises, more and more workers and more and more employers will be involved in this process, and collective wage negotiation will be more a rule than an exception.



3. TOPIC IN FOCUS 2: WAGE FORMATION SCHEME AMONG STORMBERG'S SUPPLIERS (A CASE STUDY)

3.1 Piece wage system

As a common practice in the textile/garment industry, piece wage is a dominating wage scheme also for Stormberg's suppliers. It is so for all the three inspected factories.

A piece wage for different segment of a production line is often calculated by the technical department. The workshop foremen often participate in calculation.

No direct participation and involvement of the workers, individually or collectively, in the calculation of piece wages is observed by the inspection.

The union shop stewards are not involved in any way as the representatives for the workers.

3.2 Have the workers anything to say on the piece wage determination?

According to the employers of the inspected factories, the already established piece wage standards – copied from previous similar or duplicated productions – are quite well understood and accepted by the workers.

In some cases of new production, the workers may come with complaints about the determined piece wage standards. Workers' complaints are often channelled through the workshop foremen, or directly addressed to the factory leaders. In most of the cases, the complaints have been heard and the piece wage standards have been adjusted.

However, there is no system established for the active participation of the workers on piece wage determination.

3.3 Increased income, but at other reasons

The income level has been raised remarkably among all the inspected factories. The average monthly income for an average skilled worker is around 2500 RMB.

Some other arrangements, such as annual bonus, fixed 15% extra pay, increased food allowance, have also been taken in use.

Worker's demand for increased income seems to be met in a way. It is not because the workers are more involved in the wage determination. The reasons

lie in other places, e.g. hard competition on skilled workers³ and increasing inflation. The factories have to find new ways and better arrangements – including better pay – in order to get hold of and keep the working staff.

3.4 The income level is still low

The piece wage system provides with a reward towards working intensity (more pay by working more) and working efficiency (skill). The employers seem very satisfied with this incentive pay scheme. However, the piece wage system does cause a big income span among the workers. The income level can vary between 1000 and 5000 RMB a month, from a low-skilled less efficient worker to a high-skilled more efficient worker.

Taking the working time into account, the income level among the inspected factories is still quite low, comparing to the mandatory minimum wage in the Ningbo area, as the following table illustrates.

The common working time among the textile-garment factories is 11 hours per day, 2 free days a month. It amounts for 308 hours a month. The normal working time (40 hours a week) is however 176 hours a month.

| | |
|---|----------------------|
| Average monthly income (an inspected factory) | 2500 RMB |
| - working hours a month | 308 hours |
| - average hourly pay | 8.12 RMB/hour |
| Mandatory minimum wage in Ningbo area (full-time) | 1310 RMB |
| - normal working hours a month | 176 hours |
| - average hourly minimum pay | 7.44 RMB/hour |

3.5 Collective bargaining in the future?

After talking with the trade union chairpersons in all the three inspected factories about the collective bargaining, 2 of 3 haven't heard about the collective bargaining. There is no plan for collective bargaining or collective agreement either.

One trade union chairperson (from Lixing Garment Factory) has as a matter of fact already got information from the district trade union organisation about collective bargaining. According to this union shop steward, there is a clear indication about that collective bargaining issue is on the agenda. However, the information of the timetable and way of bargaining hasn't been in place yet.

³ This issue was elaborated in the Inspection report for 2010.

4. TOPIC IN FOCUS 3: WORKER'S INFLUENCE ON WAGE FORMATION AT MACRO AND MICRO LEVEL

As described in chapter 2, worker's influence on wage formation at macro level is not in place due to the lack of centralised collective wage bargaining.

The determination of the regional mandatory minimum wage standards is however often based upon a tripartite scheme, where the trade unions, as the representatives for the workers, actively participate in consultation and determination. In this sense, the worker's influence on wage formation at a macro level is limited within the minimum wage standards.

The existing collective wage bargaining takes place mostly at a micro level – enterprise level. If the collective wage bargaining is well functioning, it should be sufficient to secure participation and influence of the workers on wage formation. However, it is far from the case today, as described in chapter 2.

The case study of three Stormberg's suppliers in this inspection round (chapter 3) is actually quite representative to reveal the true situation among all the private SMEs in China. The wage levels are as a rule determined beyond any active, systematic involvement from the worker's side. The income level is usually low and working time is long.

While the workers are not in the position for negotiation or have no real influence on their income, the workers will have to seek the highest bid by themselves. "Job jumping" or "vote by foot" is a common phenomenon and a natural "alternative" for the workers, especially for the skilled workers who are very demanded in the labour market. The turnover rate of the employees in the textile industry is as high as 30 – 40 percent. It reflects the movement of "seeking highest bid" among the workers while "job jumping" becomes the only way to "have something to say about the pay".

It will inevitably turn into a bad circle. Less influence the workers have on their own pay, less stable becomes the working staff and more turnover among the workers. Occupational training is externalised, and no enterprise is interested in providing occupational training for their employees, since it will have a clear external effect – you pay but others get benefit. Lack of occupational training inside the industry will become a big obstacle for the supply of high skilled workers and self-upgrading of the industry. It will be unfortunate for the further development of the textile and garment industry.

The collective wage bargaining system is still under development in China. Although the Chinese trade union works for a rapid promotion and a wider

coverage of collective wage bargaining, those private SMEs like the Stormberg's suppliers may still be the last to be covered. Moreover, there is still a big uncertainty about how the collective wage bargaining should be carried out at the enterprises like those Stormberg's suppliers, how the system can be improved, how efficient the collective wage bargaining can be, and how one can be sure about the real influence of the workers on wage determination.



5. CONCLUDING REMARKS

One of the central objectives, with regard to implementing the Codes of Conduct and following-up labour inspections, is to seek to establish a long-term business partnership between Stormberg and its suppliers on the basis of sharing the same commitment to quality and values.

Wage formation, as the topic in focus for this inspection round, is a natural internal affair for Stormberg's suppliers themselves. How to secure real worker's influence on their own pay and working conditions as such, how to solve the big challenge in unjust income distribution in China, is obvious a matter of concern for the Chinese government, the trade union and the business sector.

When directing the following question to the three inspected factories: will you be willing to give your workers more influence on the wage formation in your factory, will you be willing to try on collective wage bargaining when it comes to your factory, the answer is: yes, as long as the factory can afford and as far as there is a predictable economic framework for it.

At the background of this answer, there is something Stormberg can contribute in this field, namely to find a way to provide the suppliers with a predictable, stable economic framework. It can be in form of a promise of an annual volume or value of orders, or some kind of contract for fixed supplier.

It will be very much desired and welcomed by Stormberg's suppliers. It is also in the best spirit of Stormberg's key values, namely to establish a long-term business partnership between Stormberg and its suppliers on the basis of sharing the same commitment to quality and values.

