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WHY NO FORDISM IN CHINA?

Regimes of Accumulation and Regimes of Production in
Chinese Manufacturing Industries

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Boy Lüthje

Why no Fordism in China?

Regimes of Accumulation and Regimes of Production in Chinese
Manufacturing Industries

IfS Working Paper #3

Abstract

This paper examines the connections between the changing growth models of key industries in China and the regulation of work at shop-floor and industry levels. Referring to variety of capitalism theories and to regulation theory, the paper develops an interpretative framework for the analysis of sector-specific accumulation regimes in China's core manufacturing industries. Workplace relations are analyzed with reference to a typology of production regimes derived from recent empirical research. The regimes of accumulation in the automobile, information electronics, and textile and garment industries and the underlying production models and segmentations of production networks are examined. The paper explores how increasingly differentiated regimes of production in core industrial sectors shape the strategies of restructuring in the wake of the global financial and economic crisis 2008-09, how these strategies result in new segmentations of the workforce, and why substantial reforms in the Chinese industrial relations system are on the agenda.

This paper has been written in the context of the joint research project of the Frankfurt Institute for Social Research and the East-West Center, Honolulu, "Rebalancing China's emergent capitalism - Socio-economic regulation in the wake of the global economic crisis", funded by the German Research Foundation (DFG). The paper presents key theoretical concepts of this project and develops a conceptual perspective for the main phase of empirical research to be carried out in key industrial regions in China in 2013.

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1 Introduction

More than 30 years after the Communist Party of China declared the end of class struggle and began its seminal policy of reform and opening, capitalism has firmly taken hold in China. In the wake of the 2008-09 financial crisis, the country has emerged as a major growth engine of the world economy. Pundits converge on the view that China's domestic market must expand and rising mass incomes in China will be beneficial for a global economy ridden by the depression of wage incomes, industrial investment, and public spending in the United States, Europe, and Japan. Even a certain increase in production costs appears acceptable, as indicated by a cover story in the *Economist* on "the rising power of China's workers", which featured the labor troubles in the automotive and electronics industries in South China in 2010. In such moments, Fordism and Keynesianism seem to make a come-back, driven by growing social conflicts in China and other major emerging economies.

When there is so much consensus, why then is the re-balancing of China's economy proceeding so slowly and why is it difficult to mitigate the imbalances between rapid industrial development and low wages for most sectors of the industrial and agricultural workforce (Eurasia Group 2011)? Why is China's transition from extensive to intensive forms of capital accumulation proceeding at a much slower pace than in East Asia's smaller newcomer economies South Korea, Taiwan, and Singapore some time ago? And what are the economic, political and institutional obstacles to develop a social contract between capital and labor based on parallel growth of productivity and mass incomes, similar to Fordist models of wage regulation in the core sectors of older industrial economies?

An answer to these questions requires a closer look at the regimes of accumulation in China's manufacturing sector and the regulation of the wage relation, which are embedded in the organization of work, labor relations, and their trajectory of capitalist transformation. Such approaches are well-known from Western political economy and industrial sociology, but have hardly been applied to China. In this paper, we try to develop an integrated analysis of the complex changes in the regimes of accumulation in key manufacturing industries and the related re-shaping of regimes of production.

We propose that China is creating a new variety of neo-Taylorist regimes of accumulation in Asia (cf. Lipietz 2009), which is specifically characterized by combinations of "extensive" and "intensive" strategies of accumulation in complex production networks. At the meso-level, this produces a variety of industry-specific regimes of accumulation across major manufacturing sectors, which recombine capital- and labor-intensive models of production along the dividing line of urban vs. rural workers. At the level of

companies and workplaces, his results in a variety of regimes of production, which lead to specific patterns of exploitation of wage labor and social conflicts.

In the first two sections of this paper, we explain our conceptual framework for the analysis of regimes of accumulation and production in China, referring to recent debates on Asian capitalisms, to regulation theory and to concepts of regimes of production and their recent applications to the Chinese context. In sections three and four, we will illustrate our approach by means of an empirical examination of key characteristics of the sectoral regimes of accumulation and the related regimes of production in three core industries, namely the automobile, information technology and textile and garment industries. We will discuss how increasingly differentiated regimes of production shape the wage labor nexus, influence the strategies of restructuring in the wake of the global financial and economic crisis, and bring about new segmentations of the workforce and challenges for the regulation of the wage relation. From this perspective, we will present some conclusions regarding the future regulation of the wage relation, based on collective bargaining, democratic management at the workplace, and trade union reform – a key element of the re-balancing of China's economy which so far has been neglected in the political and academic mainstream discourse.

2 “Coordinated Market Economy” or “Peripheral Fordism”?

China's formidable rise as the world's most dynamic emerging industrial economy has not received much attention in the literature on models of capitalism and their dynamics until recently. Most of the vast literature on China's economy still analyzes China's development under the paradigm of transformation from “plan” to “market”. In popular Western media and for market-liberal economists, China still appears as a planned economy or a model of state-capitalism (Huang 2008). Yet the dualism of “market” vs. “state”, still prevalent in many scholarly debates, has to be transcended (ten Brink 2010). Theories of “varieties of capitalism” (VoC) (Hall and Soskice 2001) promise a better understanding of China's emergent political economy since they tend to look beyond the dualism of market vs. state. However, comparative capitalism literature remains mostly confined to developed economies, especially to comparisons between Anglo-Saxon market capitalism and coordinated market economies in continental Europe and Japan (Streeck and Yamamura 2001).

The case of China raises a number of conceptual questions, which pose new theoretical challenges to studies of comparative capitalism. To begin with, China's process of gradual transformation from a planned to a market economy has produced complex re-combinations of ownership and control over key economic and industrial assets, which David Stark (1996) and others have aptly described as re-combinant property relations in post-socialist economies. At the same time, China's mode of economic development

is characterized by the adaptation of a variety of Western and Asian strategies of economic organization, technological innovation, industrial policies, and political governance (cf. Ernst and Naughton 2008; Liu, Lüthje and Pawlicki 2007). This makes it difficult to identify one proper “Chinese” lead model of capitalist organization (such as South Korea’s chaebols or Japan’s keiretsu). To complicate things further, the social fabric of capital accumulation incorporates unique transnational economic relationships with overseas Chinese capital and communities around the “China Circle” (Naughton 1997). Finally, China’s working classes are deeply split along the division of urban and rural workers, a segmentation imposed through the historic system of household registration (*hukou*), which forms the basis of the country’s huge workforce of internal migrants.

Perspectives of comparative institutionalism are difficult to apply to a country where social institutions, norms and standards are in the process of permanent de- and reconstruction (ten Brink 2010). Many VoC-approaches assume a relatively stable set of basic socio-economic institutions in a given variety of capitalism and explain their successes or failures from an ex-post perspective. In contrast, China’s ongoing social and political restructuring can essentially be described as a process of institution building, which is often non-transparent, erratic, and entails massive experimentation and risks (McNally 2008, 2010, and 2011). In most sectors, there are no simple complementarities between trajectories of technology, production models and social progress. Collective actors among socio-economic interest groups, business associations and trade unions in particular are notoriously weak, both vis-à-vis the state and in their relationship among each other. This goes along with a “de-politicization” of the general public discourse (Wang 2008), weakness of “civil society” and limited functional differentiation of “politics” and “economics” (cf. Heilbroner 1985 and 1993).

Regulation theory seems to offer a more promising approach to explore this scenario since its key concepts “regimes of accumulation” and “modes of regulation” relate particularly to the problem of how the basic institutions of capitalist regulation are shaped and reproduced in the context of competing and antagonistic interests and changing relations between “economics” and “politics” (Aglietta 1979). Lipietz’ concept of peripheral Fordism, developed in the 1980s with regard to emerging industrial economies such as Brazil, can serve as a point of reference as it relates to the co-existence of relatively modern and dynamic sectors of production for the world market in dynamic urban growth centers and large rural hinterlands as supply-bases for low-wage industrial labor (Lipietz 1987). It appears, however, that rapid industrialization in East Asia in recent years has produced specific Asian models of “exportism” (Jessop and Sum 2006), which link neo-Taylorist patterns of work organization at the lower ends of production networks to innovation and quality-oriented practices in their core sectors (Lipietz 1998 and 2009).

Such an approach also offers a more differentiated view on China’s industrial development than theories of historical capitalism that focus on the extensive exploitation of labor, technology and environmental resources as the hallmark of Asia’s industrialization, called “industrious revolution” (Arrighi et al. 2003). China’s trajectory is much

more complex than just a process of “primitive accumulation” (Walker and Buck 2007) based on the prolonged extraction of surplus from labor intensive industries with primarily rural workforces. Although China has become famous as the world’s No. 1 low-cost location, its industrial development has been characterized by the co-existence of industrial sectors at various levels of development, distributed over a diversity of regions ruled by competing local governments, and socially separated along the divide between the urban and rural population. This co-existence of industries, clusters and regions with predominantly low-cost and labor intensive production based on rural labor on the one hand and those with higher levels of capital intensity and social reproduction with mostly urban workforces on the other can be regarded as a key feature of China’s emerging capitalism. It is closely linked to a one-party state with both quasi-federal and highly centralized governance at the same time (Saich 2004; Yang 2004; Zheng 2007).

From this angle, China’s emergent capitalism can perhaps be characterized as a certain combination of diverse modes of capitalist development, incorporating “varieties of capitalism within one country”. Those are based on *various sectoral and regional regimes of accumulation* with differing levels of capital intensity, technology and social development. This configuration seems to produce its own structural impediments for the transition from a predominantly export-oriented, low-wage, neo-Taylorist to a domestically centered macro-economic regime of accumulation based on growing internal demand, higher levels of wages and social security, and negotiated involvement of the working population. The urban-rural divide and the related socio-economic segmentations are at the core of such cleavages. Such divisions have been amply analyzed in the literature on labor, migration, and regional development (e.g. Solinger 1999) – but not from a systematic perspective focusing on the combination of modes of growth and development within a multi-layered formation of capitalist development.

For the purpose of our analysis, we have to specify the concept of accumulation regimes with regard to the meso level of industries and their locations. We can refer to Aglietta’s “classical” definition of industries as spheres of capital accumulation defined by certain norms of production and consumption institutionalized in specific strategies of capital valorization, market control and best practices of productivity and organization (Aglietta 1979; for extensive theoretical discussions see Lüthje 2001). Such a perspective can be linked to earlier interpretations of industry-specific models of post-Fordist mass production and global production networks, and regimes of production shaped by the context of social and political power relations in the locations of globalized mass production in emerging economies production (Lüthje 2002; Hürtgen et al. 2009; Lüthje et al. 2013b). For the case of China, we have to understand how the regimes of production in industrial core sectors are linked to the urban-rural divide in labor markets and employment conditions, and how the inherent segmentations of the workforce and production models shape industry-specific regimes of accumulation.

3 Regimes of Accumulation and Regimes of Production

A systematic approach to understand the regulation of wage labor in China's emergent capitalism can depart from industrial relations theory which has rapidly developed in China in recent years, but has been mostly neglected by Western media. These debates focus on the question of how to create tripartite mechanisms between management, trade unions and government to ensure "harmonious labor relations" in an advancing industrial economy. Chinese scholars often resort to concepts of "tripartism", "corporatism" or "social partnership" and intensely study foreign labor systems (Traub-Merz and Ngok 2012; Chan 2008). Such analyses are based on readings of mainstream theories of corporatism in the tradition of Schmitter (1974) and of theories of "varieties of capitalism" under comparative institutionalist perspectives (Hall and Soskice 2001). Germany and Japan are depicted as major examples of "co-ordinated market economies", representing alternative pathways of economic and social development to the globally dominant models of neoliberalism and perhaps socially more inclusive ways of capitalist restructuring (Streeck and Yamamura 2001).

Taking such a perspective, Unger and Chan (1994) have described post-Mao China as a model of state-corporatism, as opposed to the more liberal or "societal" forms of corporatism prevalent in its genuinely capitalist Asian counterparts. China's transformation to a market-based system is seen as a transition from state to societal corporatism, built on the institutionalization of basic property and social rights as well as some forms of collective representation for the working population under market conditions.

Against this background, leading Chinese labor experts characterize the country's current industrial relations practices as a system of imperfect corporatism, referred to as "tripartism with four parties" (Chang and Qiao 2009): Tripartite regulation of wage relations is severely limited by the lack of collective labor standards, negotiations and the fragmented character of trade union representation. "Fragmented representation" arises from the limited scope of union representation of employees' interests at the workplace. This is due to the lack of collective negotiations on key issues such as wages, working hours and working conditions and the lack of trade unions' legitimation among workers. Also, the large non-union sectors especially among private and overseas Chinese enterprises as well as the almost complete lack of collective bargaining at industry or regional levels contribute to this situation. Finally, Chinese employers are not forming their own organizations to represent their interests vis-à-vis workers and trade unions, particularly in collective bargaining. Rather, Chinese, overseas Chinese and foreign capitalists prefer to transmit their demands into the political process directly through their *guanxi* (relationships) with the state and the Communist Party at various levels. Within the existing framework, workers' mobilizations tend to be immediately directed against the state, in particular against local governments. These protests are often spontaneous and resort to militant means, the political system lacks the cushions and safeguards that a well-developed and institutionalized civil society would put

between social movements and the state, i.e. the basic ingredients of what Gramsci would have called a hegemonic state (Jessop 1990).

However, against the background of the rapid differentiation of regimes of accumulation in Chinese core industries, the analysis of diverging regimes of production needs to be broadened in order to capture the conditions in specific sectors and local environments. Recent literature has referred to concepts of politics and regimes of production (Burawoy 1985) and applied those to various forms of labor politics in China. Ching-Kwan Lee (2007) has coined the concept of “disorganized despotism” to characterize the new forms of labor relations emerging in China’s exporting industries. Her remarkable study found profound differences between production regimes and the related patterns of workers’ resistance: on the one hand in traditional heavy-industry areas in the North East, where mostly urban workers in former state-owned enterprises were losing their once life-long jobs, on the other hand in the export production bases in South China, where migrant workers are forming a new mass workforce under highly unstable conditions. The diverging regimes of production in China’s “rustbelt” and “sunbelt” also result in different forms of workers’ protest, dubbed “protests of desperation” in the case of veteran state workers and “protests of discrimination” in the case of migrant workers who have no bargaining resources from traditional political environments.

In the face of China’s rapid industrial development, the analysis of production regimes must go beyond a sunbelt vs. rustbelt perspective, based on comparative studies of regional labor politics. At the same time, the state-centered approach of many such studies (for a recent example see Friedman and Lee 2010) needs to be re-focused towards concrete production politics and their institutions at the shop-floor. We need to develop a systematic approach to analyze regimes of production in China’s modern core industries with their highly differentiated structures of corporate organization, ownership, integration into the world market, and connections to the rural-urban divide. The regimes of production have to be discussed in the context of different forms of workplace politics, embedded in models of production, management systems, work organization, factory rules, wage systems, recruitment policies, performance control, bargaining relations and the contractual foundations of employees’ rights and entitlements at the workplace, as well as the institutional presence (or non-presence) of trade unions and their basic practices. From our own empirical studies of about 50 cases of flagship companies and their suppliers, five generic types of production regimes among major manufacturing companies in five key industries of the Chinese exporting economy can be identified (Lüthje, Luo and Zhang 2013a):

- The regime of production commonly resulting from the transformation of state-owned enterprises (SOE) can be called “*state-bureaucratic*”. It is typically found in basic industries such as steel or petrochemicals. This labor regime is characterized by relatively stable conditions of production (after often massive restructuring during privatization), core workforces of medium or high skills, and pay systems with relatively low base wages and a high proportion of workplace and personal allowances, often making up 50% or more of the regular per-

sonal income of a worker. Companies mostly abide by labor laws and government regulations, trade unions are relatively stable. However, contract-based regulation of wages, working hours, and other employment conditions is rather weak. Usually, collective contracts and their side agreements do not contain precise language on wage rates and job classifications, or they are not made public.

- The “classical” regime of production in multinational corporations and Sino-Foreign Joint Ventures (“*corporate bureaucratic*”) is comparable to the situation in SOEs, regarding the relative stability of the conditions of production and the workforce, but it is distinctively shaped by management and work systems of multinational corporations. Such regimes of production can typically be found among major joint ventures in industries such as automotive or petrochemicals. These companies often pay the highest wages and salaries in the respective regions, their workforce consists almost exclusively of urban workers. Wage and incentive systems are similar to traditional Western multinationals, characterized by relatively high base wages (70–80 percent of the regular personal income), regulated working hours and long-term career patterns related to extensive workforce skilling and education. Trade unions usually have a relatively secure position and are coopted into factory management. However, contract-based regulation of wages and working conditions remain weak. Labor relations are stable, but there are growing numbers of individual labor conflicts, especially law suits by skilled employees with high aspirations regarding pay, working environment and career development.
- Production regimes in multinational corporations shaped by recent Western, in particular American “philosophies” of high performance management (“*corporate high performance*”) are in many aspects similar to the more traditional multinationals, especially with regard to the type of workforce, but there is a much stronger performance orientation in workforce selection, work organization and career patterns as well as high employment flexibility. Fixed base wages and salaries contribute to not more than one half of regular incomes, the proportion of bonuses and performance pay is high. Trade unions are usually weak or do not exist at all, but there is an increasing number of labor conflicts resulting from discontent among highly skilled workers, including collective forms of resistance such as work stoppages and public protests via media and the internet. Such regimes of production typically exist in U.S. or Western European electronics multinationals, but also in foreign invested chemical companies and some of the newer Chinese multinational companies in the IT industry, such as Huawei, or Korean and Taiwanese first-tier corporations such as Samsung or TSMC.
- An extreme type of “high-performance” management emerged among the large and modern mass producers of advanced electronics and other industrial products, where modern manufacturing technologies and organization are combined with the large-scale exploitation of low-paid rural migrant workers. Work or-

ganization in regimes of “*flexibilized mass production*” is dominated by massive segmentation and flexibilization of employment, often connected with the housing of workers in factory dormitories. Extremely long working hours, often in violation of existing legal standards, are the rule, driven by very low base wages, usually around local legal minimum wages. Wage differences between line workers and technicians, managers and engineers are very high. Trade unions usually have no presence in such factories, with the exception of management dominated employee representations set up in response to recent changes in labor laws. Such regimes of production can typically be found in U.S. or Taiwanese contract manufacturers and component providers in the electronics industry or some Chinese first-tier manufacturers of consumer goods.

- The classical low-wage production in technologically poorly equipped factories with low levels of organization (“*low wage classic*”) represents the bottom end of the regimes of production in major manufacturing sectors and enterprises. It mirrors traditional divisions of labor between industrialized and developing countries and its modern manifestations in the production systems of global retailers such as Wal-Mart, which have shaped large segments of Chinese export manufacturing. Workers are mostly rural migrants, often housed in factory dormitories. In contrast to technologically sophisticated flexible mass production, control and methods of exploitation are simple, direct and based on authoritarian paternalism. Base wages hover around legal minimum wages, extensive overtime is the rule and a condition of economic survival for most workers. Piece work systems are widely applied, inducing speed-up and often undermining legal minimum wages. Trade unions are mostly absent from such workplaces, while individual and collective labor conflicts are relatively frequent. Such regimes of production are widespread in the larger and smaller factories in light industries such as garment, shoes, toys and other consumer goods as well as among suppliers of electronics or automotive parts.

Table 1: Typology of regimes of production

| <i>Type</i> | <i>Production model</i> | <i>Work/HR</i> | <i>Labor Relations</i> |
|---------------------------|---|--|--|
| <i>State-bureaucratic</i> | Integrated Medium to high technology Brandname | Stable after restructuring, but increasing workforce segmentation Urban workers High wages Low base, allowances | Stable TU, party, government relations Collective contract Weak collective bargaining Few labor conflicts Workers mobilization on traditional “socialist issues” |

| | | | |
|-----------------------------------|--|---|---|
| <i>Corporate bureaucratic</i> | Integrated High technology Strong brand Market control | Stable employment Urban workers, skilled High wages, benefits High base pay Career incentives | TU, cooperative Mostly collective contract Weak collective bargaining Labor conflict few collective, often individual |
| <i>Corporate high performance</i> | Integrated High technology Strong brand High flexibility | Flexible employment Urban workers High wages, benefits Low base, high variable and OT | Weak or no TU Employee involve- ment Often no collective contract No collective bargaining Occasional labor conflicts |
| <i>Flexible mass production</i> | Integrated Medium to high technology No brandname High flexibility | Flexible employment Rural workers Neo Taylorism Low wages, benefits Very long working hours | Mostly non-union No collective contracts Occasional labor conflicts, sometimes militant Violations of legal standards |
| <i>Low wage classic</i> | Low integration Low tech No or weak brand High flexibility | Flexible employment Rural workers Low wages, benefits Personalized control Very long working hours | Mostly non-union No collective contracts Frequent violations of legal standards |

4 Diverging Trajectories: Regimes of Accumulation and Economic Restructuring in Key Manufacturing Industries

In macro-economic perspective, China's regime of accumulation has been shaped by the unique policy of gradual transformation since the early 1980s with continuing austerity on the part of the large majority of the agrarian and industrial working population (Hung 2009). Private forms of capital ownership have become dominant in most industrial sectors. In state-owned enterprises, which are particularly important in basic industries like steel and petrochemicals, and in infrastructure, a predominantly capitalist management with strong profit-orientation has also taken hold, somewhat

similar to state-owned companies in Western countries (Naughton 2007; Lüthje 2006). This economic transformation is taking place under conditions of continuing un- and underemployment, especially among former workers of state-owned enterprises and the agrarian population. Accelerated economic growth went along with a continuing decline of wage incomes and private consumption as proportion of the GDP and rapidly rising income inequality. This regime of under-consumption has not been substantially reversed after 2008-09 (Eurasia Group 2011).

At first glance, this may look like an illustration of the “industrious revolution” thesis. However, the picture is more complex since in most manufacturing industries capital intensive regimes of accumulation prevail. Industries have either carried over historically high levels of capital intensity from the planned economy (such as steelmaking, petrochemicals, or machinery), or capital intensive models of production and accumulation have been imported through multinational corporations and global production networks. China’s efforts of industrial upgrading have produced additional capital intensification in recent years, even in historically labor intensive industries such as textile and garment production (Butollo 2013). What matters, however, is the combination of capital intensive and labor intensive models at sectoral and regional levels, resulting from the interaction of sectoral pathways of restructuring, different forms of ownership and implementation of global production systems. A closer look at three key sectors of industrial mass production, the automobile, IT, and textile and garment industries, may illustrate this point.

China’s *automobile industry*, now the largest in the world, has seen a double transformation during the recent two decades. The 1990s were dominated by the massive restructuring of the major state-owned automobile firms of the Mao period on the one hand, and the emergence of first generation joint ventures between local state-owned holding companies (such as Shanghai Automotive) and foreign car makers Volkswagen, Peugeot, and AMC-Chrysler on the other. The car market was relatively undeveloped during that period. Since around 2000, a huge influx of foreign investment brought about a new series of joint ventures, which include almost every major car maker in the world, and a massive modernization of production under various models of lean production. The surge of investment in advanced technologies and manufacturing systems, including the rapid expansion of supplier networks, has brought about a manufacturing base comparable with industrialized countries. Production infrastructures are highly complete, design and development activities in China are growing (although China has only weak national car brands, so far), and a “green” sector of electrical vehicles and related car technologies is expanding rapidly (Chin 2010).

The production networks of the car industry mirror the globally dominant models of lean production, once inspired by Toyota, with relatively slim core factories for car assembly and global-local pyramids of first-tier system suppliers and second and third tier parts manufacturers (Zhang 2008). In China however, the automobile industry’s supply pyramid is shaped by the specific re-combination of property relationships that resulted from the sector’s trajectory of capitalist transformation. The top-layers of production networks, assembly of cars and some strategic components (engines in

particular), are controlled by joint ventures. Economic conditions, management cultures and industry governance are similar to state-owned enterprises. The big state-owned Chinese car companies have ample access to the economic and political resources of local and national governments. They are integrated into national strategies to enable technology transfer and develop domestic car brands. The costs of restructuring in the wake of the industry's marketization during the late 1990s to a significant extent could be shifted to car buyers, tax payers, and in some cases foreign joint venture partners (Thun 2006). The government is also heavily involved in the regulation of structural overcapacities and over-accumulation, epitomized by the heavy financial subsidies to car buyers which kept the industry afloat during the 2008-09 financial and economic crisis (Lüthje, Luo and Zhang 2013a: 60 ff.)

The mid- and lower tiers of the supply pyramid, on the other hand, are mostly owned by private Chinese, foreign and overseas Chinese investors, usually with little access to high-level government resources. Until a few years ago, China's automotive supply sector did not receive attention in national and local industrial policies, with the notable exception of the Shanghai region and its main joint ventures Shanghai-Volkswagen and Shanghai General Motors. The industry is relatively scattered and strongly regionalized in traditional centers of car manufacturing in North Eastern, Eastern, and Central China. Some important differentiations in the structure of supplier networks emerge from industrial policies in the respective regions (Thun 2006). However, the overall picture remains dominated by heavy cost competition and labor intensive production processes with relatively limited industrial upgrading. Therefore, the accumulation regime of China's automobile industry is split into a capital intensive "high end", dominated by Chinese SOE and their multinational partners, and a "low end" in which extensive strategies of accumulation prevail (Lüthje, Luo and Zhang 2013a: *ibid.*).

In *information technology*, the most massive expansion of post-Fordist mass production has taken place during the last 15 years, resulting in China's rapid climb to the global No. 1 position as exporter of information electronics with over 40 percent of world production in 2010 (Financial Times 2011). This breathtaking development, however, occurred on a pathway completely different from the automobile sector as well as from the IT industries in most other industrialized countries in the developed and the developing world. Whereas both Chinese and global automakers came from a background of vertically integrated mass manufacturing of Fordist or socialist style, advanced IT manufacturing has mainly been imported through the networks of vertically disintegrated mass production led by U.S. computer, communications and chip manufacturers in the wake of the "PC-revolution" of the 1980s and 1990s (Borras, Ernst and Haggard. 2000). State-owned enterprises with ties to the national market hardly play a role as manufacturing partners for foreign multinationals in the electronics industry. The development of the industry has been primarily driven by export production, led by large contract manufacturers from the U.S. and Taiwan.

Flexible mass production of largest scale, developed by U.S. contract manufacturers such as Flextronics and driven to (now infamous) perfection by Foxconn and other Taiwanese companies, has become the dominant pattern of electronics manufacturing in

China. The supply and technology chains of the contract manufacturers are very broad (including assembly and manufacturing of printed circuit boards, advanced components such as LED displays, advanced plastic and metal manufacturing, as well as labor intensive products like cable assemblies), but integration primarily occurs within large companies. The vertically integrated contract manufacturers in many respects resemble electronics mass manufacturers of Fordism, however, they do not have their own brand names and they rely on large-scale exploitation of cheap labor. Contract manufacturing has become the backbone of comprehensive production infrastructures in China, which include sectors of highly capital-intensive chip manufacturing and other core components, a rapidly growing sector of technology start-up firms providing innovative components and software, as well as a huge segment of low-end component manufacturers with highly labor intensive regimes of production. Thus, the accumulation regime of the electronics industry is highly capital-intensive, but divided into various sub-segments, each with considerable technological and innovative capabilities, as characteristic for the “Wintelist” industry model at global scale (ibid.). However, apart from the very high end of brand-name companies and the chip sector, the industry entirely relies on a poorly paid rural workforce, combining a basically intensive model of capital accumulation with wages typical for labor-intensive light industries (Lüthje, Luo and Zhang 2013a).

In *textile and garment*, the pioneer industry for China’s export production since the early days of reform and opening, extensive forms of accumulation and exploitation of labor prevail. This classical subcontracting industry mostly consists of small and medium-sized enterprises and factories operating on simple OEM-models which serve global production networks dominated by brand-name design and trading firms, retailers, and large garment trading groups as “middlemen”. The concentration of capital in China’s garment manufacturing, which had been expected after the expiration of the global Multi Fibre Agreement in 2005, did not take place (Zhou 2006). Although China has developed a complete and relatively modern infrastructure of support industries, such as textile machinery, chemical and non-chemical fabrics manufacturing, dyes etc., the garment and most segments of the textile industry remain dominated by the traditional low-tech, low-wage sweatshop, for which many Chinese exporting industries have become infamous. Two thirds of China’s garment manufacturing companies were believed to be unprofitable in 2009 (People’s Daily 2009). Nevertheless, there is substantial specialization and clustering, mostly in semi-rural centers in Eastern provinces such as Shandong, Zhejiang or Fujian as well as in highly industrialized Guangdong, with large numbers of firms focusing on certain products such as socks, shirts or woolen sweaters. Some of these clusters provide more than 50 percent of world production in the respective product categories (China Yearly Industrial Reports 2010).

The transformation path of this industry also involved massive downsizing and closures of state-owned textile and garment companies. However, most of them did not belong to the category of large enterprises, for which state ownership would be retained under the privatization policies of the 1990s. Similar to electronics, there is not much left of

traditions of state ownership. The industry is governed by private, often family-style entrepreneurs, along with a substantial proportion of former collective-owned township and village enterprises (Globalization Monitor 2010). Production resources are highly decentralized, the intra-industry division of labor has remained vertical (between companies), rather than horizontal (between various specialized sub-segments). This industry structure and the mechanisms of mostly informal cooperation between companies provide enormous flexibility to adapt to the extreme fashion and season cycles of global garment markets, supported by the extensive exploitation of large numbers of migrant workers (Zhang 2011). The regime of accumulation, therefore, essentially can be characterized as “extensive”.

Against this background, the scenarios of industrial upgrading after 2008-09 and under the current 5-year plan look very different across industries, and there seem to be highly diverse effects on capital concentration.¹

- The auto industry has already been quite capital intensive, due to massive investment into modern production facilities during the recent ten years and the growth of highly modern suppliers mostly of multinational origin. Currently, transformation is mostly directed at building brand-new factories in locations at the fringes of major metropolitan growth areas, such as Volkswagen’s large-scale investments in Nanjing Yicheng, Ningbo (both adjacent to the Shanghai-Yangzi Delta mega region) and in Foshan Nanhai in South China, or Shanghai-GM’s new plant in Yantai in Shandong province. The move to low-cost and low-wage regions in inner China (“going west”) has remained relatively limited, with the exception of Chengdu, where a large new auto manufacturing base has been created in recent years.
- In the IT industry, there is also no substantial push towards higher capital intensity, since capital intensity has been very high in most segments already. In this industry, however, a large-scale relocation of highly modern manufacturing infrastructures to new industrial centers in inner China is going on, led by contract manufacturers such as Foxconn with its new industrial parks in Chongqing, Chengdu or Zhengzhou, and the emergence of secondary clusters of Chip assembly in Chengdu and Xian.
- In the textile and garment industry, capital intensity always has been relatively low. However, the introduction of advanced weaving, sewing and knitting machinery, often with substantial government subsidies, has recently pushed capital intensity in some subsectors. At the same time, smaller and medium-sized firms are moving to rural locations in Central and Western China, often driven by former migrant workers who return to their hometowns as entrepreneurs or managers. There is also a move by a growing number of overseas Chinese companies to countries in South East Asia, where wages promise to be even lower than

¹ The following observations are taken from our ongoing empirical research in the context of the above cited project.

in China. Upgrading strategies focus on local brand-name building and expansion of ODM manufacturing models (Butollo 2013). Some companies are adopting principles of lean production and, with an eye on eco-conscious consumers, try to improve social and ecological standards of manufacturing. But only a relatively small number of such companies has been able to develop viable “full package” manufacturing services that would take them “beyond the maquila model” (Bair 2002) since the key problem remains their dependence on global brands and trading houses.

5 Regimes of Production and Regulation of the Wage Relation

How are shop-floor labor relations connected to this picture and how do various forms of production regimes influence the restructuring strategies in the auto, IT, and textile/garment industries? A look at basic employment, wage, and productivity trends reveals highly different patterns of employment and wage regulation and different configurations of the wage labor nexus in the respective sectors.

With 4,59 million workers in 2008, the *textile and garment industry* has the largest industrial workforce in China. Employment grew slightly during the first years of the 21st century, but decreased since 2006 due to continuing overcapacities, the downsizing of state-owned enterprises, and the impact of the financial and economic crisis in 2008-09. In the *IT industry*, China's second biggest industrial sector by employment with a total of 3,25 million, the workforce has been growing rapidly since the 1990s due to the continuous transfer of global production capacities to China. There has been no prolonged employment decline resulting from restructuring of state-owned enterprises, but employment is highly cyclical. During the recession year 2008, several hundred thousands of workers were laid off, but economic recovery resulted in rapidly resuming employment growth, with another 200000 jobs created between 2008 and 2009. *Automobile assembly* has roughly 2 million workers in passenger car and light truck manufacturing, automobile suppliers employ another 1,5 to 2 million, depending on statistical definitions. In automobile assembly, the overall growth of employment since the early 1990s was severely interrupted between 1997 and 2003, when SOEs were hit by privatization and restructuring. Massive plant closures occurred especially among the traditional national car and truck manufacturers, almost 50000 jobs were lost during that period. Only the very rapid expansion of car manufacturing after 2005 could reverse this trend and bring employment back to the levels of the late 1990s (all data from Lüthje, Luo and Zhang 2013a, based on China Statistical Yearbooks).

The wage levels in the three industries are highly different, too. In textile and garment, the average annual wage per employee in 2008 was 16,222 RMB in textile and 18,572 RMB in garment manufacturing, well below the general average for the manufacturing

sector (24,192 RMB). Garment manufacturing has seen relatively rapid wage growth due to labor shortages in some key production regions and to increases in the legal minimum wage in the respective locations between 2005 and 2008. Wages in garment are typically piece rate, contributing to high cyclical flexibility of wage incomes. The low wages to a large extent reflect gender discrimination, since about 2/3 of the workforce is female. In IT, the annual average per capita wage was 29,915 RMB in 2008. However, this figure masks the vast differences in incomes between manufacturing workers on the one side and technicians, engineers, and research and development personnel on the other. Salaries among manufacturing and product development engineers are comparable to those in IT services and software development, where the average wage was around 75,000 RMB, two and a half times higher than in IT manufacturing. In automobile assembly, the average annual wage per employee was 31,373 RMB in 2008. Among major manufacturing industries only the steel industry pays higher wages. However, wages at suppliers are considerably lower. Wages have been rising rapidly in recent years, in 2009 the average wage was up by 33,7 percent compared to 2005 (*ibid.*, wages excluding social insurance and other benefits).

These and similar data show that the much-heralded rise in wages in China's manufacturing industries does not represent the entire picture. Rather, strong upward trends in wages are limited to certain industry segments and regions with labor shortages at specific skill levels. The segmentation of wages and employment conditions is embedded in the various regimes of production outlined above and their distribution across industries. In the textile and garment industry, the low-wage "classic" regime of production is the dominant type. Only some of the more advanced producers have converged to models of more integrated flexible mass production, but there are hardly any production regimes with higher standards of wages, employment or social security. In the IT industry, flexible mass-production has become the dominant production regime (especially among contract manufacturers), but production regimes are highly polarized "along the chain". Corporate high performance regimes prevail in the upper tiers of high-tech brand-name and design companies, whereas low-end component producers typically operate on low-wage classic regimes. In the auto industry, the corporate bureaucratic regime with relatively high wages and limited wage and employment flexibility prevails among the joint venture-owned assembly plants, whereas the supply sector mostly has regimes of flexible mass production or sometimes corporate high performance (among global first- and second tier suppliers) and large sectors of low-wage classic regimes among lower end parts and component makers (*ibid.*).

Production regimes in these industries can be linked to different forms and degrees of institutionalization of basic labor standards and acceptance of legal rules and norms. As has been explained elsewhere (Lüthje, Luo and Zhang 2013a: 332), shop-floor relations in China are managed through a set of "hard" and "soft" rules, under which certain elements of the wage relation are regulated, while others are omitted or subject to some forms of non-binding consultation between employers and employee representations. "Hard rules" are laws, government regulations, and the basic procedural rules of labor-management consultation in collective contracts at enterprise level. Such rules mainly

relate to the requirement to sign labor contracts, to obey government laws and regulations on working hours, overtime, occupational safety and health, temporary labor, and minimum wages, and to accept and consult with factory trade unions, if required by the employees. The labor systems of companies with state bureaucratic, corporate bureaucratic and corporate high performance regimes of production usually accept such rules, companies in the flexible mass production and the low-wage classic categories often violate them, but have increased acceptance in reaction to labor policy reforms and growing consciousness of workers about the legal rights at the workplace.

“Soft rules” are usually embedded in collective contracts, the related agreements on wages and benefits, and government guidelines on recommended labor practices. Such rules relate, for instance, to annual wage increases stipulated in collective contracts or certain government guidelines, payment of bonuses, benefits, grievance handling, employee consultations, and “corporate social responsibility”. They are non-binding and can be unilaterally repealed. Under state bureaucratic, corporate bureaucratic and corporate high performance regimes of production, soft rules exist; flexible mass production and classical low wage regimes have very little of such rules. Where they exist, the related agreements between management and employee representation are not made public to employees, such as is typically the case with wage consultations in automotive companies with strong union representation (*ibid.*).

These differences in the regulation of the wage relation embedded in various regimes of production result in differing degrees of institutionalized labor standards and of labor flexibility at shop-floor and company levels. As a general rule the bread-and-butter elements of the wage relation at the shop-floor, such as hourly and monthly wages, wage categories and job classifications, work speed, incentives and performance control, work organization, seniority rights and collective labor conflicts, are not subject to contractual rules set by collective negotiations or other contractual rules, even in companies with highly formalized labor relations. Only the legal minimum wage provides a certain standard for wages, but minimum wages often are not enforced (*ibid.*).

The fact that there exist virtually no written agreements on basic wages and working conditions in Chinese factories is not surprising to analysts of Chinese labor relations, but the implications of the various modes of institutionalization (or de-institutionalization) of labor standards at shop-floor and company levels have not been well understood, so far. What can be noted in any case is that the weakness of collective labor standards essentially shapes the wage labor nexus in China’s emerging capitalism. Companies in most industries are more or less exempt from wage and employment “rigidities”, which under capital intensive regimes of accumulation usually would trigger restructuring of production technologies, work organization, and production regimes. The weakness of collective labor standards and the scattered character of collective mobilizations around basic issues of wages and working conditions, as well as the underlying social cleavages of the workforce explain to a large degree why the upgrading of products, production technologies and organization in the wake of the

2008-09 global recession has not resulted in major restructuring of production regimes and work practices.

The textile and garment industry provides the most characteristic example. Here, the large majority of enterprises has continued on the low-productivity/low-wage trajectory of the last two decades. Recurring labor shortages and raises of local minimum wages in Eastern provinces have not stimulated much automation or rationalization, manual production seems best suited to weather the ups and downs of orders from global buyers. Where automation has been introduced in recent years, wages remained at the same low levels as before. The move of smaller garment firms to rural areas in inner China supports this trend, since relocation offers a widely available disincentive to upgrading of technologies and work organization (Butollo 2013).

In IT, flexible mass production continues to be the dominant regime, even if its human, social, and economic costs have been rising, as demonstrated by the serious of suicides of young migrant workers at Foxconn in 2010. Productivity has been fairly high and rising, especially in the large-scale assembly industries, but the core sector of contract manufacturing remains low-wage, due to its detachment from design and development and the related polarization between high and low pay jobs. The massive build-up of new contract manufacturing clusters in central and western provinces continues the high-tech/low pay trajectory in the industry (Hürtgen et al. 2009) – a large-scale geographic duplication of the existing flexible mass production regime rather than its transformation.

In the automobile industry, the pressure to change production regimes is much stronger since the overcapacities triggered by the rush of investment from global carmakers have induced a massive productivity race. The dominance of highly visible joint ventures and their political obligations to create well-paid jobs for the urban workforces has limited the possibilities to increase work pressure and working hours and to lower wages of core workers. Increased outsourcing, extended use of temporary workers, and the rapid build-up of new high productivity factories in greenfield locations are the typical strategies under such conditions, also well known from older industrial countries. The protracted modularization of production, however, has led to an increased segmentation and polarization of the workforce along the dividing line between highly paid urban workers in assembly plants and migrant workers with poor pay at the lower tiers of the supply chain. This development has resulted in massive strains on the production regimes in the Chinese automotive sector. The core workforces are subject to massive productivity pressures: during the first decade of the 21st century productivity rose by 400 percent. In recent years, growth of productivity and wages became more synchronous (36,2 percent and 37 percent respectively during 2005–2008), reflecting booming conditions and labor shortages in key manufacturing centers. However, only the core workforces of car makers could enjoy some participation in the industry's productivity growth, under the flexible mass production and low wage regimes in most parts of the supplier industries practices of extensive exploitation prevail (Lüthje, Luo and Zhang 2013a).

6 From “Disorganized Despotism” to “Negotiated Involvement”?

The above discussion may help to understand some “Chinese characteristics” that have shaped the regimes of accumulation in core manufacturing industries. Obviously, an accumulation model based on simultaneous growth of capital intensity, productivity and wages - once the virtuous circle of Fordism in industrialized countries - does not have much of a base in China’s new capitalism, neither at the macroeconomic nor at industry levels. In all three industries analyzed above, modernization of production and the related increases in capital intensity and productivity appear disconnected from the development of wages and employment conditions. In spite of the fact that the Chinese state has intensified its efforts to promote industrial upgrading, innovation, and brand-name building, there has been no substantial restructuring of production regimes in the wake of the 2008-09 global crisis. In exporting industries such as apparel or electronics, the logic of global production networks tied into the low-wage export model of the last two decades and the urban-rural divide in industrial labor markets continues to shape production regimes. In the absence of a system of contractually based collective labor standards, the Chinese state and trade unions have little control over wage regulation, in spite of the centralized appearance of the political system behind it.

Under these conditions, China’s regime of capitalist accumulation continues to be one of under-consumption of large sectors of the working population, including the more stable parts of the urban industrial working class. Productivity growth in China’s manufacturing sector has been much higher than wage growth, resulting in continuously low hourly compensation costs throughout China’s manufacturing industries, as indicated by relevant international comparative data (Bannister and Cook 2011). Although labor-intensive industries are regularly complaining about rising labor costs, the recent rises in minimum wages and some locally strong upward wage trends for higher skilled workers in export manufacturing regions can by no means offset the massive income redistribution since the 1990s which has resulted in the decline of consumption of private households as proportion of GDP from over 50 percent to less than 35 percent (Hung 2009). In this respect, China’s model of accumulation is not so different from its East-Asian counterparts during their take-off phases. However, the co-existence of sectors with intensive and extensive accumulation strategies, often within the same industries, and the ability of the political and social system to maintain and transform these segmentations with only relatively little social unrest seem to prolonge China’s transition from the low-wage export model towards a domestically-centered growth path.

Strong management control over basic working conditions is characteristic for most of East Asia’s neo-Taylorist accumulation regimes (Lipietz 2009). The Chinese variety is particularly characterized by the lack of trade unions, which act independently from state and capital, and the absence of collectively bargained labor standards. The lack of

socially institutionalized collective labor standards results in a set of basic imbalances in corporate labor systems (Lüthje, Luo and Zhang 2013a), such as low base wages and with high amounts of variable pay, strong wage hierarchies along with extensive status discrimination against migrant workers, women and temporary workers, an almost complete lack of seniority-based workplace regulations, job classifications and job-security provisions, and high employment flexibility even in relatively protected sectors. Recent changes in labor laws, the Labor Contract Law of 2008 in particular, have limited some of the worst impacts of employment flexibility on workers. However, the basic parameters of labor market flexibility on the long term can only be reversed by substantially limiting management prerogative over “hiring and firing” through collective contractual safeguards and by creating some serious forms of negotiated involvement.

The increasing number of labor conflicts in recent years has demonstrated the urgency of reform of workplace relations based on democratically legitimized trade unions and workers’ representations (Chang and Qiao 2009). In the automobile industry, the strike wave among migrant workers at suppliers in South China in May/June 2012 demonstrated the instability of the industry’s increasingly segmented production regimes and the systemic discrimination of migrant workers along supplier pyramids. In the IT industry, the tragic suicides of young migrant workers at Foxconn exposed the company’s despotic regimes of flexible mass production to massive criticism in the Chinese public. Public criticism in China and abroad finally forced major brand-name customers, such as Apple, to acknowledge permanent violations of basic labor rights and Chinese laws in their manufacturing operations. In the textile and garment industry, frequent workplace protests of migrant workers have led to some local experiments in Zhejiang and Jiangsu provinces with collective negotiations over standards for piece rate wages which have often been cited as models for the development of collective bargaining in China (Zhang 2011).

These and related developments have triggered new debates about labor reform in China (Chang 2011; Zeng 2011). The most protracted efforts, aiming at substantial changes in the basic institutional system of industrial relations, have been made in Guangdong province, the epicenter of labor unrest in China. Reform measures have focused on three issues: collective bargaining, the democratic election of factory trade unions and the re-introduction of the right to strike, which had been eliminated from the constitution during the early days of reform and opening in 1982 (Traub-Merz and Ngok 2012). Looming behind all these issues is the question of trade union autonomy. This does not only include independence from the government and the communist party, but even more so from employers (for an excellent discussion see Luo 2011). The social movements of migrant workers have claimed practical changes in this field, which go far beyond the timid suggestions of the All-China Federation of Trade Unions. In some of the strikes in South China in 2010, such as in the case of Honda supplier Denso in Guangzhou, the local trade unions sided with the workers and urged the city government to withdraw police and supervise collective negotiations (Chen and Lüthje 2011).

There is no doubt that labor reforms in China remain state-driven. But in their more advanced expressions, the relevant actors are looking for ways to make tripartite regulation of labor relations work, by addressing the key problem of democratic legitimation of trade unions. Obviously, the existing system of disorganized despotism (Lee 2007) based on the *guanxi* (informal relationships) between local governments and their capitalist investors, has to give way to more hegemonic forms of production politics. “Societal corporatism”, a term coined to describe the need for stronger civil society involvement in labor relations in the wake of the political turbulences of the 1980s (Unger and Chan 1994), appears to be back on the agenda. At the end of the day, China will certainly not turn social democratic and develop labor relations along the lines of European-style co-ordinated market economies. But various models of state-based regulation of labor relations with some controlled autonomy of trade unions are developing at the local level, not only in Guangdong province. China’s emerging “variety of capitalisms in one country” may open up new opportunities for reform.

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