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Chinese Capitalism in Crisis

Part 1: Zhang Lu on exploitation and workers' struggle in China's auto industry

The highlights of the conference “Chinese Capitalism in the World System: New Perspectives” that took place on December 12, 2015, at the *Global South Studies Center* in Cologne, Germany, were two presentations given by Zhang Lu on labor unrest in the Chinese auto industry and by Li Minqi on the dynamics of social demands, working class formation, and the crisis in China as well as the capitalist world system. As micro- and macro-perspectives on capitalist development and class struggle in the “factory of the world,” they approached the crisis of Chinese capitalism, the social frictions it produces, and its possible collapse from different angles.

Zhang Lu from the Department of Sociology at Temple University, Philadelphia, and Li Minqi from the Economics Department at the University of Utah, Salt Lake City, have both recently published books. Remarks on Zhang Lu's book on labor unrest in the auto industry and an interview with her are documented below. A review of Li Minqi's book on the crisis in China and beyond, as well as an interview with him, will be published in the next edition of *Sozial.Geschichte Online*.

Inside China's Automobile Factories

When a strike broke out in the Honda transmission plant in Foshan, South China, in May 2010, stopping production in all of Honda's Chinese assembly plants, it became obvious the three million automobile workers in China had been gaining bargaining

power and were willing to use it. The subsequent wave of struggles that swept through other auto parts supplier factories led to a significant wage increase and inspired workers in other industries to start their own struggles.¹

For Zhang Lu, author of *Inside China's Automobile Factories. The Politics of Labor and Worker Resistance*, that strike wave came as no surprise.² She had been studying the situation in China's automobile industry since 2004, in particular the situation in seven large automobile assembly plants—Chinese state owned enterprises (SOE) and their joint ventures with auto multinationals from Germany, the USA, and Japan.³ A state-owned truck maker was the first company she investigated. Her initial request “to work on the line with ordinary workers” was turned down by management. Instead, she was assigned to the factory Party Committee Office “to help collecting shop-floor material and editing factory newsletters” (p. 5). While workers were “suspicious and curious” at the beginning, they later started to see her as “sincere” and willing “to listen to their trivial stories and complaints for hours with great interest,” and she was able to “establish a rapport with workers and let them open up” (ibid.). In the next factory, a Sino-German auto assembly plant, she was again not allowed to work on the line but

¹ For an account of the strikes at Honda and elsewhere see: Carter, Lance. “Auto Industry Strikes in China.” *Insurgent Notes*, October 2010, documented at [<http://www.gongchao.org/en/texts/2010/auto-industry-strikes-in-china>]; in German see: Gongchao. “‘Sie haben das selbst organisiert’ – Die Streikwelle von Mai bis Juli 2010 in China.” In: Pun Ngai, and Ching Kwan Lee: *Aufbruch der zweiten Generation. Wanderarbeit, Gender und Klassenzusammensetzung in China*. Berlin: Assoziation A, 2010, documented at [<http://www.gongchao.org/de/aufbruch-buch/streikwelle>]

² Zhang Lu. *Inside China's Automobile Factories: The Politics of Labor and Worker Resistance*. New York: Cambridge University Press, 2015. All page numbers in this section refer to that book.

³ The factories Zhang Lu analyzed for the book are located in five major automobile production bases: the Northeast (Changchun), the Yangtze River Delta (Shanghai), the Central region (Wuhu), the Pearl River Delta (Guangzhou), and the Bohai Sea area (Qingdao and Yantai). She did research in the sixth major production base in the Southwest (Chengdu and Chongqing) later.

got a position “as a liaison between the factory Party Committee Office and Party branches in various workshops,” which allowed her to hang around on the shop-floors. In the other five factories, management only allowed her to interview workers, but she could not observe daily work inside the factories.

Her research allowed Zhang Lu to write a detailed account of the labor regime and workers’ resistance on the shop floor, but Zhang also describes the general development of the auto industry since the government-led reforms of the 1980s. Her starting question was whether China would follow the historical pattern of other auto producing nations in the 20th century, where the set-up and expansion of the auto industry led to the development of militant working classes as described by Beverly Silver in her book *Forces of Labor* (2003): in the US in the 1930s, in Western Europe in the 1960s, in Brazil, South Africa, and South Korea in the 1970s and 1980s.⁴ Zhang Lu’s book follows the four levels of working-class formation as outlined by Ira Katznelson (1986): changes in the capitalist structure, ways of life between the labor market and the factory, groups of workers and their dispositions, and collective actions.⁵

⁴ Silver, Beverly. *Forces of Labor: Workers’ Movements and Globalization since 1870*. New York: Cambridge University Press, 2003. Zhang Lu studied and worked with Beverly Silver and Giovanni Arrighi at Johns Hopkins University in Baltimore and co-published texts such as: Silver, Beverly, and Zhang Lu. “China as an Emerging Epicenter of World Labor Unrest.” In: Hung, Ho-fung (ed.). *China and the Transformation of Global Capitalism*. Baltimore: Johns Hopkins University Press, 2009. The text is documented online at: [<http://soc.jhu.edu/wp-content/uploads/sites/28/2012/02/SilverZhang2009.pdf>]; the German translation can be found under: [<http://www.prokla.de/wp/wp-content/uploads/2010/silver-zhang.pdf>].

⁵ Katznelson, Ira. “Working-class formation: Constructing cases and comparisons.” In: Katznelson, Ira, and Aristide R. Zolberg. *Working-Class Formation: Nineteenth-Century Patterns in Western Europe and the United States*. Princeton: Princeton University Press, 1986.

The development of the auto industry in China

Back in the 1960s and 1970s, the Chinese government tried to develop a “self-sufficient automobile industry with production bases in each province,” but it used “outdated technology,” produced “low-quality products,” and suffered from low labor productivity (pp. 25–26). Then, in the 1980s, the government designated the auto industry one of the “pillar” or leading industries and set two goals: consolidating the automotive sector through the creation of a few large auto groups, and encouraging those state-owned groups to form joint ventures with foreign partners to get access to modern technology and management skills. Foreign investments came in two waves, from 1984 to 1996, with AMC/Chrysler, VW, Peugeot, Citroen, and Daihatsu, and after 1997, when GM, Honda, Kia, Toyota, Ford, Hyundai, and others followed.

Until the mid-1990s, the foreign multinationals and large auto SOEs—including the “big four”: Shanghai Automotive Industry Corporation (SAIC), FAW, DFM, and Chang’an Motors (CCAG)—enjoyed extremely high profits due to government protection, high import tariffs, and high auto prices in China. Assembly workers in the joint ventures earned high wages—“2–3 times higher than the wages of SOE workers and local average wages,” with fairly secure employment and a range of social benefits (p. 33). However, after the implementation of the Company Law in 1994, the Chinese auto industry went through a wave of mergers, restructurings, and mass layoffs, and the total number of auto workers “dropped by 25 percent, from nearly 2 million in 1997 to 1.5 million in 2001” (p. 36). The central government decision to cut back protectionist measures to prepare for the WTO accession led to increased competition—again intensified by new local players as Geely, Great Wall, and BYD Auto. Profitability dropped dramatically, followed by “intensified exploitation of front-line workers through increased work intensity and excessive overtime, as well as the widespread use of low-paid, flexible temporary workers on production lines” (p. 38).

The organization of production changed because managements started combining lean and just-in-time (JIT) production with existing Fordist / Taylorist mass production techniques. As in other assembly plants globally, auto production in Chinese auto factories consists of four main production workshops: the press shop, the body shop, the paint shop, and the assembly shop. Until the 2010s, most of the final assembly shops “had adopted the modular assembly method, which breaks down the traditional long assembly lines into several modules: power-train, doors, instruments, and front end assembly” (p. 84). These assembly plants drew parts “from hundreds of outsourced suppliers in multiple locations” nearby and had “also outsourced their logistics functions to third-party logistics companies” under the JIT system (ibid.).

Dual labor forces

Starting in the mid-1990s, as part of the attempt to increase labor flexibility and reduce job security, permanent and long-term workers were replaced by contract-based, urban, formal workers with relatively short-term contracts. Since the early 2000s, some automakers in China adopted a *lean-and-mean* labor model with flexible and unstable conditions for all workers, but towards the end of the decade, more and more automakers moved toward the *lean-and-dual* model (i.e., labor force dualism), with some enjoying fairly stable conditions as *formal* workers while others—rural and urban youths—were employed as *temporary* workers.⁶ However, the large increase in temporary work in the 2000s was not due to a replacement of formal jobs with temporary work; instead, it occurred in the context of a rapid expansion of production.

⁶ Labor force dualism exists in multiple forms around the world. The usual division into *permanent* and *temporary* workers does not apply in the case of Chinese auto workers. While many workers are employed on a temporary basis (e.g., through temporary agencies), others are directly employed by the auto company but have work contracts for a limited time period—so they are not *permanent* workers. For that reason, they are called *formal* workers here.

In the assembly plants Zhang Lu investigated, the overwhelming majority of workers were male—but there was a slightly larger share of women working in auto parts plants. Of the *formal employees*, 10 to 15 percent were managers and engineers, 15 to 20 percent white-collar specialists and technical professionals, and the rest were blue-collar production workers, mostly young, semi-skilled, urban, with short-term contracts; many were directly recruited from technical and vocational schools (pp. 61–63). With the increasing mechanization and automation of the production process, many workers’ tasks were reduced “to ‘baby-sitting’ machines and responding to the machine problems” but, at the same time, a range of highly skilled positions for technicians and maintenance workers with increased marketplace bargaining power was created (p. 65).

The composition of the *temporary* workers changed over time. While in the early and mid-1990s they consisted mainly of peasant workers from nearby suburbs and the surrounding countryside, hired “to cope with seasonal changes in production demand” (p. 68), in the 2000s, most of the temporary workers were hired through temporary agencies and some as student interns from vocational schools. They made up between one-third and two-thirds of production workers at the leading auto assembly enterprises (p. 80).

Workers’ wages in the Chinese auto industry were “about 30 percent higher than the average of all urban manufacturing workers in China” (p. 73). However, Zhang Lu points out that workers’ wages had “not kept pace with the remarkable growth of China’s auto industry in the past decade,” and “there were significant variations in autoworkers’ earnings across segments, enterprise ownership types, regions, and workers’ skill levels,” especially, between assembly workers and parts workers at supplying companies (p. 74). In 2007, production workers in the assembly plants could get between 1,800 and 4,000 yuan, skilled workers easily 3,000 to 5,000 yuan—including overtime and bonuses (p. 75). Temporary

agency workers “earned only one-half to two-thirds the pay of formal workers” and got less benefits (p. 76). Still, more than three-quarters of the formal workers Zhang Lu interviewed felt they were underpaid.

On the assembly lines, the work was divided into “work sections” (*gong duan* 工段), each section into “work blocks” (*gong qu* 工区), and each block into “work groups” (*ban zu* 班组). Work groups often consisted of formal and temporary workers, and it was common for workers to rotate “among tasks within a work group” (p. 87). Government policy of promoting technological upgrading and the collaboration with global auto companies led to a “high level of mechanization and automation, with state-of-the-art production machinery and robotic systems” and an emphasis on standardization (p. 88). The working conditions were “characterized by heavy workloads, an intensive work pace, long working hours, and excessive overtime” (p. 91). Despite the generally “clean, bright, and air-conditioned” workshops, there were still particular production sequences that “remain dirty, strenuous, and damaging to workers’ physical health” (p. 93).

On the shop-floor, some socialist legacies survived, with a shop manager, a Party branch secretary, and a shop union chairman in charge using “enterprise paternalism, ‘heart-to-heart talks’ and ‘thought work’ with ordinary workers, regular group study meetings among Party members and activists, and campaign-style production mobilization efforts” (p. 96). Management learned that these practices “do not conflict with the principle of profit-making at all” (p. 97). In its dual function of assisting management “to mobilize workers to increase the productivity and profits of the enterprise” and “[representing and protecting] workers’ interests,” the party-union ACFTU sided with management as soon as conflicts arose, and it tried to defuse conflicts (p. 99). As a result, workers generally viewed the union as incapable of representing their interests and considered it part of management.

Formal workers' grievances

The division of workers—into formal and temporary—did not lead to passivity on both sides but was rather the reason for new discontent and actions by both types of workers. The protections and privileges of *formal* workers were gradually reduced due to the intense competition in the auto sector. In particular, the younger generation of formal production workers had high expectations with regard to wages and working conditions, but felt frustrated and dissatisfied when faced with the reality of the assembly lines. As formal workers with relatively high levels of qualification, they hoped to be able to “exit” the line and move up in the factory hierarchy. Their main grievances derived from “their daily experiences of working on the line”—the “physical rigors and tedium” of their work—and from “the arbitrary exercise of managerial authority”—as, for instance, not allowing workers to talk to each other during working hours (p. 118). Other issues were work-related injuries “caused by having to perform repetitive motions” and “excessive compulsory overtime” (p. 119), the latter especially when—after the market downturn in 2004 and 2005—the daily production quotas were increased and compulsory overtime was implemented, meaning the work time needed to meet the quota was counted as regular working hours. On top of that, “a comprehensive work-time calculation system” was introduced “that considers a year-long period when accounting for overtime” (p. 120). Workers saw this cost-cutting strategy as a way to “steal” their overtime pay (p. 121).

Although the industry continued to expand in the 2000s and no large-scale layoffs occurred since the restructuring of the 1990s, in the eyes of formal workers, their job security was reduced, and their commitment and loyalty to the employers decreased with it. In one case, “the interviewed managers complained about the deteriorating worker morale,” and when in another case the workers’ annual bonuses were reduced in 2005, “there were 20 percent higher repair rates” during the next quarter year (p. 126).

Formal workers gained substantial workplace bargaining power, especially when considering the enormous size of the factories and the vulnerability of production to interruptions, due to the highly mechanized assembly lines and the JIT system. While most formal workers have refrained from openly challenging management, Zhang Lu emphasizes that rather “than manufacturing consent, the shop floor is instead a contested terrain of resistance and negotiated compliance” (p. 136). She found “various incidents of formal workers’ resistance, ranging from ‘everyday forms of resistance’ (Scott 1985) in acts of effort bargaining, manipulation of worker participation programs, pilferage and sabotage, to open protest, and, in extreme cases, sit-down strikes” (ibid.).⁷

The struggles of temporary workers

Meanwhile, *temporary* workers, often perceived as weak, vulnerable, and docile due to their lack of job security, have been surprisingly militant. Labor force dualism and their inferior positions were the major source of their grievances and anger. The “harsh reality of being treated as ‘second-class’ workers and the slim chances of becoming formal workers led temporary workers to feel frustrated and resentful” (p. 149). Temporary workers got the more strenuous, dirtier jobs, were paid less, had fewer benefits and little job security; they lacked training and had few chances of becoming formal workers. Living together in dormitories close to their workplaces, and having similar backgrounds and workplace experiences, temporary workers’ frequent and close interaction helped them develop solidarity. Their ability to use social media enabled them to organize “online” and in the real world. “The most common strategy temporary workers adopted was to use small-scale, less open, but highly disruptive forms of everyday resistance, such as sabotage, slowdowns, absenteeism, and collective quitting of their jobs” (p. 153). In one case, the sudden and collective strike action of stu-

⁷ Zhang Lu refers to Scott, James. *Weapons of the Weak: Everyday Forms of Peasant Resistance*. New Haven: Yale University Press, 1985.

dent intern workers was successful in winning the payment of delayed wages. Striking in the “peak” season in summer and getting the “silent support” of formal workers were decisive factors (p. 156). A later strike for a wage increase in the same auto plant was unsuccessful because the formal workers did not support it and management “took a hard line.” However, the company raised the wages one month later (p. 157).

After the implementation of the Labor Contract Law in 2008, temporary workers started to “use the law as a weapon” more frequently. Zhang mentions the dramatic increase of labor dispute cases filed by workers. “Although the interviewed agency workers were cynical about the labor laws and the labor dispute resolution process handled by local officials, they had developed good strategies as to how to leverage the aspects of the law that could be used to their advantage” (p. 162).

Since the increasing small-scale protests of temporary workers disrupted production, management reacted by raising temporary workers’ wages. It gave “a handful of selected temporary agency workers” the chance to become formal employees, monitored temporary workers’ grievances, and channeled them “through formal mechanisms” (p. 169). The party-union ACFTU changed its “strategies toward temporary workers, from exclusion to incorporation,” allowing them to join the unions in the companies at which they work (*ibid.*).

The specter of social instability

For the governing CCP, the “rising tide of labor unrest in China since the mid-1990s”—in the auto industry and elsewhere—raised “the specter of social instability and a ‘legitimacy crisis’” (p. 174). Since the early 2000s, it has reacted with social policies and the pursuit of a “harmonious society,” but also by introducing new labor legislation, including the Labor Contract Law, the Employment Promotion Law, and the Labor Dispute Mediation and Arbitration Law (all passed in 2007). The Labor Contract Law (LCL) was a re-

action to labor unrest and “popular demand for increased labor protection and job security” (p. 175), an attempt to regulate unstable employment practices. However, according to Zhang Lu, the law triggered a massive increase in the number of temporary agency workers, as “it became more difficult to lay off formal workers under the LCL” (p. 176). Although providing agency workers “with some legal protection,” the LCL also gave employers a “flexible valve” that allowed firms “to continue using labor dispatch to lower labor costs and gain flexibility” (p. 178). Still, this boundary-drawing strategy of extended use of temporary workers “has not resolved the profitability-legitimacy contradiction confronting the Chinese Party-state” (ibid.). Since the implementation of the LCL in 2008, the increase in labor dispute cases related to temporary agency work and concerns with social stability led to the implementation of stricter regulations of agency work in 2013 (p. 180).⁸

In sum, the “massive foreign investment and the increased scale and concentration of automobile production in China in the past two decades have created and strengthened a new generation of autoworkers with growing workplace bargaining power and grievances” (p. 183). Both “formal and temporary workers have a growing consciousness of and have been able to exploit their strong workplace bargaining power” (ibid.). The autoworkers’ struggles have remained “localized, short-lived, and limited in their goals,” but they have nonetheless “won specific management concessions,” while “concerns with maintaining social stability and political legitimacy have driven the central government to pass pro-labor laws in order to stabilize labor relations and pacify disgruntled workers” (p. 184). The “main source of militancy has so far resided among parts workers in the subcontracting system and among temporary workers in the assembly plants. But under the highly integrated JIT production system, the strikes at parts suppliers and by temporary workers can effectively shut down the assembly plants and the en-

⁸ However, companies have again found ways to get around the new regulations, for instance, by outsourcing or setting up their own agencies.

tire production chain” (p. 185). Like “other types of capital ‘fixes,’ the attempt to fix the problem by drawing boundaries within the working class only temporarily shifts the terrain on which the contradiction unfolds” (ibid.).

Struggle without unions

Zhang Lu emphasizes that workers can struggle and achieve change without unions. “Chinese workers are indeed ‘bargaining without unions’—they are making use of their legitimacy leverage over the state to wring concessions from their employers,” and “grassroots labor unrest and pressure from below are the genuine forces that drive meaningful change in the workplace and reforms from above” (p. 187). It remains an open question whether the “widespread, localized, and apolitical labor unrest in China” will prompt further state interventions that expand labor protections and rights, as it has in the past few years (p. 192). Zhang Lu emphasizes—referring to Piven and Cloward (1977)—“that many of the gains made by ‘poor peoples’ movements’ do not come from the establishment of formal organizations oriented toward the capture of state power, but are a result of concessions wrung from the powerful in response to widespread, intense, spontaneous disruptions from below in response to the threat of ‘ungovernability’.” The “idea of power,” the recognition of the possibility and the experience of successfully changing one’s fate through action, and deployment of the “legitimacy leverage” will be essential in the upcoming labor struggles (pp. 192–93).⁹

⁹ Zhang Lu writes: “I conceptualize *legitimacy leverage* as a specific type of workers’ bargaining power in contemporary China (in addition to other types of bargaining power (...) [workplace power, marketplace power, associational power]). Legitimacy leverage is essentially an ideological power. It is based on the idea and belief in workers’ own power, and their willingness to struggle for change—what Piven and Cloward (1977) have called the ‘idea of power.’ It leverages the ‘credible threat’ of the ‘disruptive’ power’ of workers—on the streets as well as through strikes—and the CCP’s top concerns with maintaining social stability and political legitimacy” (p. 18). She refers to: Piven, Frances Fox, and Richard Cloward. *Poor People’s Move-*

Zhang Lu predicts that the “workers’ grassroots protests will continue to push for higher wages, better working conditions, and more union organizing and pro-labor reforms from the official union, the ACFTU. But the labor movement in China will not follow the schema of the ‘master narrative’ from working class formation to trade union organization to political party to state power, which is still surprisingly alive in many discussions about labor unrest in China today” (p. 194). This is a dissident position among labor researchers in China, who still favor the mentioned master narrative, and it also differs from the position of many (professional) labor activists inside (and outside) China who see their future in more or less independent formal labor organizations acknowledged by the state. In contrast, Zhang Lu proposes to keep trying to “identify the potential for transformation from below” that escapes this strategy, geared to the incorporation and pacification of labor unrest. Her detailed account of the recent history of the Chinese auto industry and auto workers’ unrest, combined with these lucid political insights, makes Zhang Lu’s book a valuable source both for the discussion on China’s class struggle and for future interventions.

Interview with Zhang Lu

*Could you tell us something about the differences between the development of the auto industry and the involvement of the state in China in comparison to the countries it followed, South Korea and Japan?*¹⁰

In many ways the Chinese government tried to follow the Japanese and Korean examples to develop its own brands and “national champions.” However, the international environments and the timing were very different. First, when South Korea and Japan devel-

ments: Why they succeed, how they fail. New York: Vintage Books, 1977.

¹⁰ The interview with Zhang Lu took place in Cologne, Germany, on December 13, 2015. All questions were asked by the author of the above review and Christian Frings.

oped their auto industries, the international environment was different and relatively favorable for both countries. So they were able to put protectionist policies in place at the beginning and open up to foreign investment and transnational corporations at a much more mature stage of development than in China. China, in contrast, opened up relatively early. As in the case of Volkswagen in 1984, China tried to utilize foreign investment from the beginning of the reform era to develop its domestic auto industry. Second, the oil crisis in the 1970s gave Japanese and Korean car makers the opportunity to sell their small, fuel-efficient cars, which helped them to break into low-end European and North American markets and rise up in the global auto industry. China did not have such favorable conditions. As a latecomer in global automobile manufacturing, China faces more intense competition and profitability pressures at a late stage of the automobile product cycle. The auto industry experienced a state-led, large-scale restructuring in the late 1990s, as part of China's attempt to enter the WTO and to compete in the global capitalist system. Third, unlike Japan and South Korea, joint ventures (JV) between multinational corporations and Chinese state-owned enterprises (SOEs) have played a crucial role in the development of China's auto industry. These JVs imported global standards, advanced machinery, and lean production techniques from their foreign partners at the very beginning, during the restructuring in the 1990s, rather than developing gradually.

All the assembly plants of global auto makers in China are joint ventures, which means there is a Chinese partner, in general an SOE, a state owned enterprise. How does this involvement of SOEs shape the labor regime inside the factories?

The auto joint ventures are in many ways similar to SOEs, from the party committee and the trade union to the labor practice. The basic unit in organizing production is small work groups, called *banzu* (班组). They were introduced in the 1950s, under Mao's "mass line" and mass mobilization, and have remained one of the

most effective means of organizing production and reaching out to ordinary workers in Chinese factories till this day. The Chinese *banzu* is similar to the “team work” or “team concept” in the Japanese lean production system, but the former has more ideological and social control functions, because the *banzu* is not only for the organization of production but also responsible for organizing study groups of party documents and other worker activities. The Chinese management considers *banzu* very useful and effective in mobilizing and controlling workers. At the same time, *banzu* also provides workers with an opportunity and space for building workplace networks and group solidarity.

So you see that in the joint ventures, but what about private Chinese companies without that tradition? Do they also set up work groups?

Yes, they do. They learned from the SOEs and the joint ventures. That shows that the work group functions well for management and is productive. The work group is the smallest unit on the shop floor. On average, work groups have 8–10 workers; larger work groups may have 16–20 workers.

But on an assembly line you might have 100, 200, or 300 workers. How do they divide this collective, cooperative work process of a few hundred workers in such groups?

If you visit the factories, the assembly lines, you see they are divided into multiple work sections (*ban duan* 班段). Within each work section, production lines are further divided into dozens of work blocks (*ban qu* 工区) organized according to the specific technical operations on assembly lines. Each work block is assigned to a work group (*ban zu* 班组) and led by a team leader. Within each group, an individual production worker is assigned to a specific work station (*gong wei* 工位) by his team leader. Each group assumes direct responsibility for product quality, safety, and cost control for its work block, and is expected to be the first to respond to any problems in daily production. The work groups along the line are connected by production processes, and they have fre-

quent contact with adjacent groups. So the work groups cooperate with each other, but they compete with each other, too. The management evaluates each group. That is typical nowadays under the lean production system. German factories have that system too.

You speak about “labor force dualism” and the separation between temporary workers and formal workers. So how does it fit in to the work group model? I understand that there are both, temporary and formal workers, in one work group, but then there is the difference in status. How does that play out?

That is a very important question. Temporary workers and formal workers work side by side. There is no difference, if you just look at what they are doing. For example, in one work group you have six formal workers and eight temporary workers. They belong to the same group, they cooperate, they work together to complete the daily work task of their group. So there is no difference if you just look at what they are doing, but once they get their pay checks the difference is huge. The formal workers’ income is about 30 to 50 percent higher than that of temporary workers. If you just look at the basic wage, they are similar, but formal workers get higher benefits and other perks and bonuses from their company. Particularly, the annual bonus is huge, and only formal workers are eligible to receive it. Some managers told me that since the implementation of the 2008 Labor Contract Law, formal and temporary workers received the same bonuses, but according to the workers they were still not the same. The Amendments to the Labor Contract Law (2013) and the Provisional Regulations on Labor Dispatch (2014) include stricter regulations on labor dispatch and stipulate a 10 percent upper limit for the use of temporary agency workers (10 percent of the total number of employees) in a company. But the limit has led to some new management strategies, including the increasing use of subcontracting. That subcontracting is, in reality, still like labor dispatch, but they turned the labor agencies into subcon-

tractors—i.e., business subcontractors in name but labor subcontractors in reality.

So, in 2013, the new state regulation of temporary labor made capital turn towards subcontracting. Back in 2008, after the implementation of the Labor Contract Law, temporary agencies expanded rapidly because, according to that law, workers who worked for a company for ten years or more have to get a formal, unlimited labor contract. In both cases, the law was intended to control the labor status of workers, but capital has developed ways of circumventing that, and the composition of the workers has changed.

Yes, I use the concept of “unintended consequences” of the law. After the implementation of the Labor Contract Law in 2008, the number of agency workers doubled to about 60 million. The companies used temporary agency employment to avoid signing non-fixed, tenured contracts with their formal employees after two renewals of labor contracts as stipulated under the new law. There had been no clear regulations on labor dispatch beforehand. The lawmakers could have avoided the increase of temporary agency workers by not making it a regularized employment form and formulating strict regulations.

Temporary work and the dual labor force system coincide with the outsourcing of auto parts production. Do you have such forms in China as well?

Yes, modular production has spread since about 2005. Many assembly tasks such as door and seat assembly have been outsourced to first-tier suppliers. Aside from the dualism of temporary and formal workers inside the assembly factories, there is also a dualist structure between parts workers in the auto suppliers’ factories and those in assembly plants whose conditions are much better. There are only a few exceptions, like some first-tier parts suppliers owned by large auto SOEs where the workers are paid quite well. The majority of parts workers, however, are either working in privately

owned Chinese or in foreign-owned companies, and they earn much less than the workers in the assembly plants.

You argue that the temporary workers were the more militant group in the auto assembly plants you have looked at. Usually people think that temporary workers are much weaker, they cannot really organize that well, etc., but in the examples you describe, it is the other way round. Why is that?

Firstly, there is a large number of temporary workers, they work side by side with formal workers on the assembly line, and their workplace bargaining power has increased. They are aware that they have bargaining power and that they are able to shut down the line. *Secondly*, temporary workers have more grievances compared to formal workers. There is a sense of inequality. They are doing the same work but are paid much lower wages. That has become one of the continuous motivations for temporary workers to struggle for equal treatment, as in several wildcat strikes by temporary workers I documented. *Thirdly*, the social composition of the temporary workers has changed gradually. In the past, the division between formal and temporary workers had been primarily based on the *hukou* (户口), i.e., the household registration system dividing the population into urban and rural. The formal workers were urbanites, and the temporary workers were mainly rural migrant workers and peasant workers from the suburbs and surrounding countryside, hired directly by automobile factories. But since the early 2000s, many urban young workers have also joined the army of temporary workers, which now consists mainly of temporary agency workers and student interns. As temporary workers, they have the urban *hukou* and similar vocational education as formal workers, and, subsequently, the boundary between formal and temporary workers has become blurred. That change has at least two implications: The new temporary workers feel even more discontented with the unequal treatment they experience at the workplace, and there has been a growing homogeneity of formal and

temporary workers on the line. *Fourthly*, the factory-provided dormitory residence can facilitate temporary workers' mobilization and collective actions. Many temporary workers and student intern workers live in the factory dormitories, but formal workers do not—except for very young workers or new graduates. A large number of young temporary workers with similar backgrounds and workplace experiences lives in concentrated factory dorms, and that allows them to build social networks, initiate collective actions, and stay connected during strikes. During the two wildcat strikes at a truck company I documented, the workers all stayed in their dormitories and refused to go to work. *Finally*, both temporary and formal workers are able to use social media and the internet to stay connected and communicate with each other. To be sure, I am not saying that temporary workers are generally more militant, but if we look at workers' power—as well as their grievances and mobilizing dynamics—we can see the limits of labor force dualism and the boundary-drawing strategy. Once the temporary workers feel empowered, once they see their bargaining power, they organize and fight back.

How did temporary and formal workers relate to each other during strikes?

In my book, I compare two cases, the “June strike and the October strike.” During the June strike, the formal workers supported the successful temporary workers' strike, because at that time formal workers were discontented about overtime work. They were not paid as expected. So formal workers also had that kind of grievance, and when temporary workers went on strike, they joined them. The October strike, on the contrary, failed. The management had increased the wages of formal workers but not those of temporary workers. When the temporary workers went on strike to demand an equal increase, the formal workers did not support them. I interviewed one formal worker who said that “the market was not that great.” So he felt fortunate that he still got a pay increase, and he

said that “it is just not possible to treat everybody the same, for everybody to have a wage increase.” So the dualism produced the fragmentation of solidarity. In the face of a boundary-drawing strategy the management imposes on workers, it is very important to build a common goal, to reach out and build solidarity among different groups of workers.

However, if the percentage of temporary workers on the assembly line is so high—thirty to fifty percent—and the temporary workers go on strike, the formal workers cannot work.

That is the point. That is why, after the strike, management tried to reduce the number of temporary workers on the assembly lines. It realized it can be very destructive to have so many temporary workers. There was some automation, but they also increased the number of formal workers in the assembly shop. Temporary workers were used rather in the welding shop and other sections. Now some factories have also learned from companies like Foxconn. If you are from the same vocational school or work in the same group area, they try to separate you, don’t allow you to live in the same dormitory. They are learning. They feel the dormitories can be dangerous if they put workers with similar backgrounds or those who already know each other together.

What about the team leaders? They are considered workers in the auto plants although they have management functions. What role do they play in the struggle?

In many cases, team leaders are actively involved in wildcat strikes. Sometimes they are even the leaders of the struggle. Still, team leaders have a contradictory role because their position is a stepping stone for a regular worker to move up to management. They are not managers yet, but it is the first step. Managers try to use the team leaders to control and motivate workers. However, team leaders also depend on the support and cooperation of their fellow workers to get the work done. They have to respond to their group members’ demands and grievances. In many cases, team leaders are

under peer pressure, and they get involved in the strike mobilization processes. My interviews show team leaders were actually the backbone during organizing and strikes. On the other hand, you see team leaders sometimes discipline and control their group members.

In his book Wildcat Strike: A Study in Worker-Management Relationships (1954), Alvin Gouldner analyzed the internal group dynamics and coined the term “natural leader,” which has nothing to do with the “formal leader” of trade unions.

I would be cautious and not say that team leaders are necessarily “natural leaders” who are going to organize workers. You find negative cases of team leaders who really repress workers. However, the group dynamics are absolutely central to an understanding of the shop-floor and labor politics. The group itself also plays a contradictory role, as I mentioned at the beginning. On the one hand, you can have group solidarity; on the other hand, management can pit one group against the other. There are daily contacts and cooperation between groups on assembly lines. But then you also have competition and antagonism between groups.

There is a third aspect. From research on formal organizing on the shop-floor level we know you have formally organized groups, but there are other connections and other groups, like in the dorms, through kinship, etc. So there might be a contradiction between the formal group set-up and the informal groups.

Yes, you have different networks. You have workplace networks based on the work groups, you have social networks based on workers’ social life outside the factory. According to my observations between 2004 and 2011, the work group and the social group in the dormitory did overlap. Recently, management tried to make sure that workers from one work group do not live together in the same dormitory, so you see that management tries to understand how workers organize and does respond to this.

Could you detect—before, during, or after strikes—any kind of underground, hidden groups or connections of workers?

Yes, absolutely. There are informal groups in the organizing of strikes. For instance, in the wildcat strike I documented at a Sino-US joint venture, I was told the strike was organized by a group of workers in the assembly shop called “dare-to-die-squad.” They were all experienced workers from different work groups. They held off-line positions which allowed them to move around the shop floor, so that they could build connections to other workers and communicate with one another. Some group leaders and acting group leaders, the so-called called *liudong ren* 流动人—stand-by men or women—also played this role.

You write in your book that although struggles are described as “cellular,” “unorganized” or “spontaneous,” and despite the limitations of their “formal” organization, they have effects, not just economic effects but also political effects. This is an important discussion because many people think that without any formalization and institutionalization struggles will remain “weak” and will not create change.

We need to be clear about the goal first: What do we consider significant social change? During my research, I saw that workers on the shop floor won wage improvements through their struggle, even though it was localized, factory-based, and, at that moment, not cross-factory. The conditions of the temporary workers also improved. The management responded to the struggles and gave them more equal access to the factory resources. So the working conditions and wages improved through workers’ own struggles, and the workers understood that. That is the economic part, and then you have the political part: Once you have a lot of factory-based unrest there is concern, both on the part of management and on the part of the state, about stability. The official union functions in part by maintaining predictability and stability. But the bottom-up, grassroots activity showed that the union was not sufficient in disciplining and controlling workers to guarantee stability, so the

state had to step in—through labor laws, through policy changes—in order to ensure stability. Capital also demanded that stability. I do not argue that the state stepped in because of this or that particular strike, but we do see that the state is concerned, especially when it comes to these large auto companies, and it directly intervenes in struggles in the auto sector. The state has responded to the struggles of temporary workers, too, and the policy change is in part a response to workers' discontent and struggles. Now, temporary agency workers' wages have increased; they have better conditions and treatment. Of course, if someone defines the goals of social change as having "independent" unions, a multi-party democracy, that kind of transformation of the authoritarian regime, then the results might be disappointing. However, it is different if you consider an improvement of conditions and the livelihood of workers a positive change. The policy changed in more "pro-labor" directions; that is real change.

In her book Forces of Labor, Beverly Silver develops the concept of a "déjà vu" of automobile workers struggles, in Brazil, South Africa, and then South Korea. There was a connection between the increased workplace bargaining power and the struggle against the dictatorship and for democracy. Concerning democracy, they were eventually successful: Apartheid was abolished, the dictatorships in Brazil and in South Korea were abolished. Do you not think there will be another "déjà vu" in China?

We should consider at least two aspects here. *Firstly*, the Chinese state is in many ways "smarter" than the South Korean and Brazilian authoritarian regimes were. It does not use the same "straight-forward" repression but tries to accommodate certain demands and thereby reduce militancy. The Communist Party and its union play a role in mitigating grievances and militancy—different from the direct repression in, for instance, the South Korean case, which made workers even more radical and militant. In addition, the socialist past and the Chinese Communist Party's own history with

class struggles and the workers' movement make it fully aware of the power of workers and also students. In South Korea, you had the connection between the student movement and the workers' movement. In China, the government has been very vigilant against any connection between intellectuals and workers, and it tries to prevent them from coming together. Also, the central Chinese government is still responsive to workers' demands and grievances. And when you talk to workers, they are not saying that they want to overthrow the CCP government. Workers do want workplace democracy, they want to have a say in their work, but that is not about regime change, at least not at this point. *Secondly*, if we want to understand the labor movement, we need to look not only at the workers but also at state-worker interaction, and also at capital: In the auto sector, at least, the Chinese state is still controlling both, workers and capital. As a result, the foreign companies cannot do whatever they want, and the SOEs are still following government instructions. The labor force dualism in China shows that the state and capital are actively responding to the contradictory pressures of profitability and stability by drawing boundaries among workers, and they still promise some stability and protection for formal workers. In Brazil and South Korea, the dualism came much later. During the workers' movement against the dictatorships, there was no such division.

In South Africa, Brazil, and South Korea we had, at the beginning, new unions—CUT, COSATU, KTUC (later KCTU). I remember that some from the left said this would be a totally new type of union, but in the end they made agreements, and we saw new forms of social partnership. According to the product cycle theory Beverly Silver is using, if a production technology is becoming standardized and can diffuse, then there are limits to a social compact because you no longer have windfall profits. What is the perspective of a social compact between automobile workers and capital in China?

China entered the global automobile manufacturing at a much later stage. Competition is high and profit margins have become thinner, so the room for capital to create a social compact with workers has been much smaller. From the very beginning, labor force dualism has been utilized as a way to incorporate only a small number of workers into a social compact while excluding a large number of workers. That is related to the low profitability in the late stage of the automobile product cycle. However, the product cycle can also be influenced by market forces and by state intervention, for example, through industry upgrading policies. We see an increase in profitability in the Chinese auto sector since 2009, in part because China has had a large and fast-growing domestic market and consumers have substantial purchasing power, and in part because the state has intervened to support the industrial upgrading and the development of R&D in order to jump up in the global value-added hierarchy. The subsequent increase in profitability may provide some opportunity to include more workers in a social compact.

China is already experiencing a long-term economic slowdown, officially recognized as “the new normal” (xin chang tai 新常态). That could mean that the current balance between profitability and legitimacy will be lost. There is more pressure on profits, higher unemployment is possible, etc., and the space for a social compact may narrow. We also see a wave of repression of labor unrest and activism. Are these indicators of a major policy change?

The government currently tries to repress labor activism in order to help capital and maintain a stable business environment under a long-term economic slowdown. At the same time, it has been trying, at least in official discourse, to shift from an export-driven growth to a domestic-consumption-driven growth or economy. It aims to increase domestic consumption to stimulate and continue growth, and that includes an increase in the wages of workers, who are also consumers. Indeed, the government set up the goal of increasing the minimum wage standard by 13 percent on average per

year in its twelfth five-year plan (2011–2015). And the average minimum wage standards in China had achieved double-digit growth annually since 2010. Thus, whether the pendulum will swing towards more commodification of labor or more towards a social compact is still an open question.

There is speculation about a possible “hard landing” of the economy. The transition from a more export-oriented, cheap-labor economy to a more domestic-consumption-driven one is a process, the government cannot just switch from one to the other. Whether China will make it is not clear. Another question is whether the profitability of capitalism in China and in the global context will be high enough to accommodate the demands of a few hundred million workers, which would be a new situation historically and globally. Could China just become another South Korea? That is what the Chinese government aims for, a successful industrial upgrading and economic re-balancing.

China shifting from one model to another will no doubt have an impact on global production, western consumers, and US hegemony. They will feel the pain. At the same time, capital always tries to find a new low-cost “green field” for factories. Foxconn, for instance, has already opened new factories in India. But China is hard to replace because of the supply chains and the infrastructure. In the short term and even in the medium term, there will probably be no one other country that can play the role of the global factory in the same way that China has done. In any case, the current changes in China will have a direct impact on the situation in the West.

We hope so. Giovanni Arrighi explained to people that if the situation of South Korea in the world economy changes, that is no problem for capital, but if the situation in a country with a fifth of the world population changes, then there is a problem for capital, and that is good.

Yes, indeed.