
Changing labour relations in China's automotive industry

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Abstract: Based on a short overview of the labour regulation regime in China this article analyses the transformation of Chinese labour relations and the potential for labour conflict in the automotive industry. It is shown that labour relations in China's automotive industry are deteriorating and that different forms of labour conflict are emerging at various points of the production chain. Thus, there is strong pressure for continued reform of the system of labour relations. However, the existing institutional setting presents massive obstacles to reform, strongly favouring the interests of capital over those of labour and putting the party-state's imperative of political control before any autonomous articulation and negotiation of the interests of capital or labour. With no sign of a sustainable and democratic model for labour regulation, the automotive industry may remain a hotspot of labour conflict in China.

Keywords: labour relations; labour regulation; China; automotive industry; labour conflicts.

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1 Introduction

Since the introduction of reform policies and the gradual opening of the Chinese economy in the 1980s, the automotive industry in the People's Republic of China (China), one of the strategically important state-designated pillar industries, has rapidly grown in size, complexity and diversity. In the wake of the global economic crisis of 2008/2009, China has surpassed both Japan as the world's largest producer of automobiles and the USA as the world's largest automobile market (Economist, 2009). In 2007 China's automobile industry generated 4.5% of the country's total GDP [China Automotive Technology Research Center, (2009), p.450].

As the state began to withdraw as an employer in the 1980s and 90s, new forms began to replace the socialist *danwei* system of employment in China's automotive industry. Highly skilled and highly paid workers retained long-term contracts, while increasingly large cohorts of workers on short-term contracts began to be dispatched to assembly plants by labour agencies, and low-skilled and precariously employed rural migrant labourers found work in the supplier industry. This marketisation of labour relations in China has created new forms – and an increasing intensity – of labour conflict. In 2010, for example, the euphoria around China's rapid emergence as the world's new automotive centre dissipated when a wave of wildcat strikes in the automotive supplier industry received extensive international media attention for causing work stoppages in a number of dependent manufacturing plants.

As labour conflicts have become increasingly common in all industries, the Chinese state has reacted by crafting a series of new labour-related laws, the first of which was drafted in 1994. While in principle these laws indeed grant far-reaching rights to workers and unions, their implementation has proven to be difficult under the existing institutional framework of labour relations, which is dominated by the party state. Unions in particular have been caught in a web of contradictory functions, expectations and allegiances, because they remain bound to the party's policies, are often subordinated to the interests of enterprise management and at the same time are expected to fulfil responsibilities as workers' representatives. Thus, the current system appears to have a limited ability to adapt to labour relations in an increasingly marketised economy and to deal with the emergent challenges of labour conflict.

The aim of this article is to give an overview of the laws and institutions composing the system of labour relations in China and, on the basis of this description, to analyse the transformation of labour relations and the potential for labour conflict in the automotive industry. It will be shown that labour relations in China's automotive industry are deteriorating and that different forms of labour conflict are emerging at various points within the automotive production chain. Thus, there is strong pressure for continued reform of the system of labour relations and its adaptation to conditions of market labour relations. However, the existing institutional setting presents massive obstacles to reform, strongly favouring the interests of capital over those of labour and putting the party-state's imperative of political control before any autonomous articulation and negotiation of the interests of capital or labour. With no sign of a sustainable and democratic model of labour regulation, the automotive industry may remain a hotspot of labour conflict in China.

2 General features of labour relations in China: the institutional framework and emerging labour conflict

Market-oriented reforms in China have caused massive changes in the country's social and economic fabric since the 1980s. At the same time, the Chinese Communist Party (CCP) has upheld its authoritarian rule and control of the state. This hybrid of market economy and one-party rule has been called 'socialism with Chinese characteristics' and 'socialist market economy' by the CCP's leadership. The introduction of market elements into the economy also included fundamental changes in labour policies and regulations. The resulting system of labour relations is characterised by the significant influence of employers and largely impotent or dysfunctional institutions of workers' representation and participation. The system of labour relations remains closely linked with the institutions of the party-state, whose political prerogatives present the strongest obstacle to fundamental reform.

2.1 The history of labour conflict in China

The traditional system of labour relations in China has come under strong pressure for reform since the marketisation of the economy began thirty years ago. In particular, during the 1990s the rapid dissolution of socialist employment relations led to the emergence of employer-employee relations in which the power clearly rests with management. As Shen (2006, p.352) notes: "In corporatized SOEs [state-owned enterprises; LP/RP] and POEs [privately owned enterprises], management enjoys extraordinary power over employment relations issues, without being concerned about workers' rights. Although there are numerous consultation policies in Chinese industries, they do not play an effective role in industrial relations, and organisational transparency concerning industrial conflict is not yet the norm".

The emergence of collective labour conflicts reveals tensions such as this as well as the lack of adequate and effective mechanisms of conflict regulation. Between 1995 and 2006 the number of collective labour conflicts increased by more than 500% [Wang, (2008), p.196]. According to the Labour Statistical Yearbook published by the Ministry of Human Resources and Social Security (MOHRSS), the number of labour disputes brought before the responsible institutions rose from 48,121 in 1996 to 684,379 in 2009. Specifically focusing on the clothing industry, but using evidence from industry in general, Bulut and Lane (2011, p.50) summarise the defects of the labour relations system as follows: "lack of law enforcement by the competition state; legal proscription of free collective bargaining and independent unions; and the availability of an abundant rural migrant labour force. Liberalisation of markets thus has provided managements with ample opportunity to achieve labour flexibility, and the owners/managers of firms overwhelmingly determine labour practices and rights in a highly autonomous manner (Gallagher 2005). Whereas under communism enterprises could win an award for being a 'civilised work unit' (Guthrie 1999), under market liberalism factory despotism can rule".

The inadequacy of existing institutions and regulations in dealing with labour conflicts can be explained in part by the strategy that the party-state has used in the past for reconciling economic development and social stability. The strategy pursued

macro-policies that sought to solve emerging social problems through continuous development of the economy. With regard to labour relations, “the party-state had to develop the labour market and relieve social tension by providing ever-growing employment opportunities [...and...] the party-state suppressed labour interests, which a ‘working-class’ regime was supposed to ‘represent’ in order to please capital. The underlying logic for suppressing labour interests and supporting those of capital is to trade labour rights for investment and employment” [Ma, (2009), p.382f]. However, the strategy of alleviating social tensions by focusing on economic development to provide employment has reached its limit. The growing number of workplace-related labour conflicts in recent years has shown that the marketisation of labour relations leads to new social conflicts between labour and capital in the workplace itself.

2.2 The legal framework of labour relations

In response to the increasing intensity of labour unrest and conflict, a number of new and reformed laws have been introduced since the turn of the century to address the imbalance in power relations between capital and labour and to provide a more stringent regulatory framework for labour contracts and the resolution of labour conflicts. The main legislative pillars of the Chinese system of labour relations are the labour law (*laodong fa*) of 1994, the trade union law (*gonghui fa*), which was revised in 2001, the labour dispute mediation and arbitration law (*laodong zhengyi tiaojie zhongcai fa*) and the labour contract law (*laodong hetong fa*), the latter two of which have been in force since 2008.

The labour law of 1994 marked the withdrawal of the state from its previous socialist role as a regulator of employment relations and introduced liberalisation, granting broad discretion to employers. More recently, the revision of the trade union law and the laws on labour contracts, dispute mediation and arbitration are representative of the Chinese state’s desire to reshape and re-regulate labour relations under the banner of ‘building a harmonious society’ by limiting employers’ discretion in labour relations, protecting workers’ rights and interests, and strengthening the role of the unions [Harper Ho, (2009), p.39].

The labour dispute mediation and arbitration law seeks to redress inefficiencies and to strengthen the workers’ position in the dispute resolution process. Formally, the settlement of labour disputes takes place through a three-stage process of mediation, arbitration and litigation. This process, however, has been criticised for delaying dispute settlements and leaving workers at a structural disadvantage because they often lack the financial and legal resources to follow through with the lengthy process [Taylor et al., (2003), p.165ff]. The new law is an attempt to address these issues by making agreements reached in the mediation and arbitration stages of the settlement process more easily enforceable. It also eliminates a number of fees that may have previously discouraged plaintiffs from filing complaints, and raises the ceiling for claims and awards [Harper Ho, (2009), p.79].

The labour contract law provides a number of provisions to increase workers’ job security, such as making it easier for workers to enter into work contracts of an indefinite term, and, more significantly, imposing uniform sanctions and penalties for employers

who fail to provide their employees with written labour contracts. While written contracts have been a mandatory requirement in any employment relationship since the enactment of the labour law of 1994, this rule has often been violated, especially in small- and medium-sized enterprises. The law also provides for collective agreements and dictates the role of trade unions and workers' representatives in the negotiation of such agreements [Harper Ho, (2009), p.70f].

These laws provide employees, at least formally, with a wide range of procedural and material rights concerning protection, representation and participation. But despite the government's drive to reform the system of labour relations, a large gap still exists between the legal provisions concerning labour relations and their application in practice. Ma (2009) notes that along with the labour laws promulgated by the central state, a large number of additional administrative labour regulations are administered at all levels of government, creating ambiguous or contradictory legal situations and conflicts between local and central ministries. Also, comparable to other social areas of legal regulation, "it is China's lack of effective law enforcement, instead of the lack of law or regulation, which always attracts criticism" [Ma, (2009), p.378].

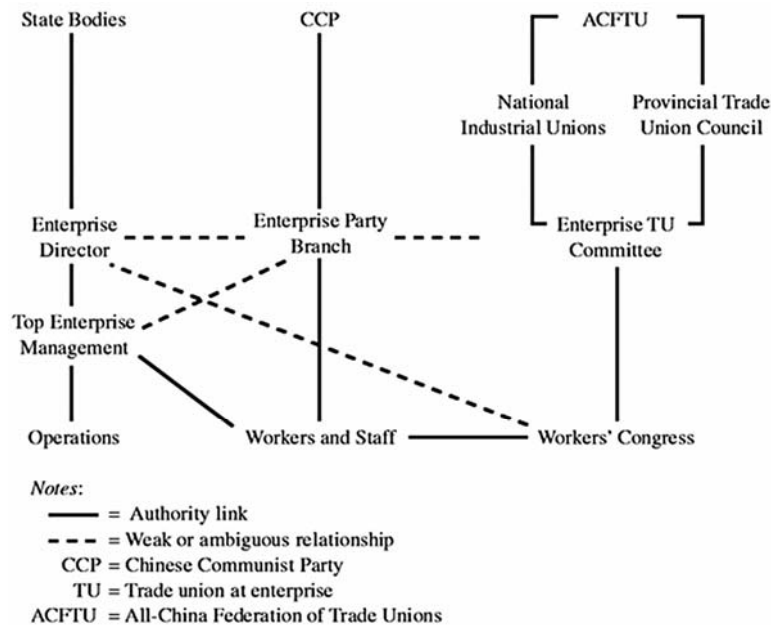
2.3 The position of enterprise-level unions in labour relations in the workplace

Even today, enterprise-level unions in China are closely linked to the CCP, as are all institutions involved in shaping and overseeing labour relations. Indeed, the party's self-image, and part of its ruling strategy, is to be a representative of and an arbiter between all social interests. The party-state and its mass organisations therefore inhibit the autonomous organisation of social groups, and also limit the articulation of the particular interests of these groups and the resolution of conflicts of interests as these things must all be resolved and shaped inside of controlled institutional frameworks. As a result, the party-state remains directly involved in the management of social conflicts and, unlike the governments of liberal democracies, cannot withdraw to the position of a neutral third party vis-à-vis capital and labour.

The direct involvement of the party-state in labour relations is reflected in the composition of the general political-institutional framework of labour relations. As is expected in a state still structured according to Leninist principles, the party is represented in institutions at all levels of government, as well as at all levels of mass organisations, the latter being the organisations where social groups and interests are co-opted. State and mass organisations are linked through party cadres who simultaneously hold positions in the state and within mass organisations, such as the All-China Federation of Trade Unions (ACFTU) and the China Enterprise Confederation and China Enterprise Directors Association (CEC-CEDA). ACFTU Chairman Wang Zhaoguo, for example, is a member of the party's political bureau as well as the Vice-Chairman of the National People's Congress [Ma, (2009), p.374]. The party state's direct involvement in labour relations thus extends from the national, provincial and local levels down to the enterprise level.

Figure 1 shows the complex structure of labour relations in state-owned enterprises with the three pillars of public administration, the Communist Party and the official trade unions represented.

Figure 1 Relationships between trade unions, party organisations and management in Chinese enterprises



Source: Ding et al. (2002, p.435)

If the authority link between ‘state bodies’ and management were to be removed in Figure 1, then similar organisational patterns could be found in many privately owned enterprises (POEs) where CCP branches are established.

In principle, the rights of unions to protect workers and represent their interests are far-reaching. Unions must be informed when management plans to lay off workers. They can also represent workers whose labour rights have been violated and may investigate or seek legal redress when management violations of rules and laws are brought to their attention. Enterprise-level unions are responsible for helping individual employees to sign labour contracts and for representing workers in collective agreement negotiations. While Chinese law does not explicitly recognise the right to strike, Article 27 of the trade union law stipulates that “in the events of stoppage or slowdown at enterprises” trade unions shall consult with the management on behalf of the workers to represent their demands and negotiate a solution.

The unionisation rate in Chinese SOEs is as high as 90%. Unionisation rates in POEs have also been on the rise, as the party and ACFTU have made it a priority to integrate POEs into the existing labour relations system. An empirical study of the Greater Shanghai Region found a very high density rate for unions: over 80%, in private Chinese enterprises, as in companies with partly foreign ownership, collectives and other undertakings [Shen, (2006), p.357]. The extensive legal rights of Chinese Unions and the high unionisation rates could potentially make Chinese Unions strong representatives and protectors of workers’ rights and interests. However, there are a number of factors that limit this potential.

The integration of unions into the party-state puts them in an ambiguous position in the workplace, often preventing them from fulfilling their legal responsibility to protect

workers' rights and represent workers' interests effectively. The party sought to address some of these contradictions with the introduction of a new trade union law in 2001, the purpose of which was, arguably, to transform unions from socialist 'transmission belt' organisations into an instrument for workers' representative in a market economy [Taylor et al., (2003), p.123]. To an extent, the law mandates that trade unions represent and defend workers' interests according to the stipulations of the aforementioned labour laws.

This mandate, however, is still largely determined by the role that the party state assigns to the ACFTU and its unions. The ACFTU's unions have the responsibility of mediating between workers and management should a labour dispute arise, and ultimately of reconciling the interests of the conflicting groups in line with the party's general policies. This means that the unions are expected to simultaneously fulfil two conflicting roles: that of worker representative and that of a supposedly neutral mediator in the labour dispute. The contradictory provisions "[...] place the grass-roots union in an embarrassing position when it is involved in labour disputes where the employer is in the wrong. On the one hand, it has to represent workers to fight for their interests; on the other hand, as the chairperson of the mediation committee, the union is required to keep a neutral status as the third party" [Taylor et al., (2003), p.167].

At the enterprise level, the position of unions is often further compromised, as union chairpersons are often also leading members of the enterprise party committee and members of the management board (Chen, 2009; Heng 2010). In his 2008 survey Chen (2009, p.680) found that 49.6% of enterprise union heads concurrently held leading party positions, 34.9% concurrently held managerial positions and 73.3% were party committee members. In many private and foreign-owned enterprises, unions are mere 'shells' which generally remain idle and often have been established in a top-down process to meet official unionisation standards (Ibid, p.681). In many enterprises, unions remain as ineffective as they were before the revision of the trade union law and continue to prioritise the goals of party organisations and management over workers' interests. Chen cites one SOE union chair who stating his understanding of union work as the following: "Our union organization is under the leadership of the party committee and our work focuses on the core work of the party committee, that is, the economic development of the enterprise. We are obligated to arouse the enthusiasm of our members to serve this goal. [...] Union work should take social stability into account and benefit the development of the enterprise" (Ibid, p.682).

Despite the wide range of rights and protections guaranteed to workers and unions by the new labour laws, and the fact that it is the responsibility of the unions to enforce these rights and protections, the conflicting structural position of unions often prevents them from doing so effectively. Given this situation, many specialists have identified a slow and ambivalent process of change in the formal legal structures and actual practices of labour regulation. Along these lines, Ding et al. (2002, p.447) note: "While critics [...] have argued that existing Chinese unions have a state-controlled monopoly, cannot bargain freely and do not have the right to strike, the evidence we have presented allows us to conclude that, despite these obvious limitations, Chinese unions are sometimes able to influence the outcomes of labour disputes positively and to protect workers' interests. Overall, however, we would have to conclude that Chinese unions function more as an offshoot of the HR department, and are primarily concerned with supporting managerial interests".

This situation affects workers' faith in the ability of the enterprise-level union to represent their interests in labour disputes. Unsurprisingly, the number of cases involving

arbitration and litigation has steadily risen over the past ten years [Shen, (2008), p.281]. Since mediation is a required step before cases can be referred to arbitration, this means that few mediation attempts are successful. While in 1999 more cases were settled through mediation than through arbitration, this changed in the following year, with the trend continuing through 2009 (Table 1).

Table 1 Labour dispute cases settled by type, 1999–2009

Year	1999	2001	2003	2005	2007	2009
Mediation	39,550	42,933	67,765	104,308	119,436	251,463
Arbitration	34,712	77,250	95,774	131,745	149,013	290,971
Other	47,027	35,096	59,954	69,974	71,581	147,280

Source: Ministry of Human Resources and Social Security P.R. China (2010)

Some scholars hold that creating staff and workers representative councils (*zhigong daibiao dahui*, SWRC) could help to make conflict and labour regulation more independent of the state. In many larger companies – regardless of whether they are public or private – SWRCs exist and, at least formally, hold rights which are far-reaching [Zhu and Chan, (2005), p.10]. Since these councils exist in different types of companies and are formally independent of the party and the unions, SWRCs could play a more active role in the future (Ibid, p.14). With regard to the possible role of SWRCs, Zhu and Chan (2005) note: “At normal times [...] in a small number of cases the SWRC has emerged in some workplaces as an institution that can foster a consensual industrial relationship. The ACFTU is trying in a top-down fashion to promote and regularise the functions of the SWRC. At the same time management of a more enlightened bent may also use the SWRC to induce a more cooperative workforce. [...] At a time of deteriorating conditions in the state enterprise, especially when it approaches the moment of life-and-death struggle, the SWRC can become the arena of a struggle for survival. The SWRC will become a platform where workers fight for their interests and their rights. They might end in failure but, if the workers succeed, then the SWRC has the potential to continue and to become a real workers’ democratic participatory system” (Ibid, p.29f). Wang (2008, p201ff, p.210) notes the growing significance of NGOs, Chinese civil society and new forms of workers’ organisation.

3 Labour relations in the automotive industry

3.1 The development of China’s automotive industry and its labour relations

Two major factors have contributed to the rapid development of China’s automotive industry. On the one hand, international carmakers and suppliers have sought to gain access to China’s comparatively low-cost labour pool and potentially huge auto market by investing in China. On the other hand, the Chinese state still plays a highly interventionist role in the development of the industry. The automotive industry was selected as one of the ‘pillar industries’ in the country’s sixth five-year plan of 1986, and was declared a ‘leading industry’ in the eleventh five-year plan of 2005 [Zhang, (2010), p.6].

Since the 1980s, the government has repeatedly formulated and adjusted development goals and strategies for the automotive industry. The process began when the Chinese Government encouraged SOEs to engage in joint ventures with foreign carmakers. Probably the best-known example of this state-led development strategy is the Shanghai Volkswagen Automotive Co. (*Shanghai Dazhong Qiche*), a joint venture between the Volkswagen Group and Shanghai Automotive Industry Corporation (SAIC, *Shanghai Qiche Gongye Gonggongsi*) that was created in 1984. Numerous joint ventures followed this first venture, with Chinese SOEs working with European, American and eventually Japanese automakers.

The ‘three majors and three minors’ strategy of 1988 was meant to actively promote the development of three selected industry champions: namely, First Auto Works (FAW, *Diyi Qiche Jituan*), Second Auto Works (SAW, *Dier Daqiche Jituan*, today Dongfeng Motor) and SAIC, as well as three smaller provincial SOEs. The aim of the policy was to nurture a limited number of firms in a market protected by high tariffs and entry restrictions. As a result, the SOEs and their joint venture partners were able to generate high profit margins [Chu, (2011), p.9].

The ‘Automotive Industry Policy’ of 1994 continued to support economic concentration and protection in the automotive industry, but with a view to China’s future admission to the WTO the Chinese Government also began to take a critical look at the deficits of the industry. Due to high levels of protectionism, R&D capabilities had hardly been developed and most of the car designs did not meet consumer demands [Chu, (2011), p.17]. Beginning with SAIC’s joint venture with GM, established in 1997, the central government actively sought to introduce stronger competition and technological development into the car industry by allowing more foreign investment, generally lowering market access restrictions and supporting growth in private demand. Around the turn of the century “the Chinese auto market became a global battlefield” [Chu, (2011), p.19], leading to the introduction of the latest production and management techniques and large amounts of foreign capital.

What’s more, the wave of restructuring that followed the government’s change in policy led to layoffs and the introduction of more ‘flexible’ forms of employment, as is reflected in the decline in employment which took place in the industry through 2001 (cf., Figure 2). As profit margins dropped, Chinese carmakers quickly adopted work organisation practices that were based on techniques of lean manufacturing, just-in-time systems, visual control systems and quality circles [Zhang, (2010), p.10]. The privileged and stable employment relations which had long existed in the state-protected auto industry were a remnant of the days of socialism, and were gradually being abandoned and replaced with practices of outsourcing and an increasing reliance on temporary labour [Lüthje, (2011), p.102].

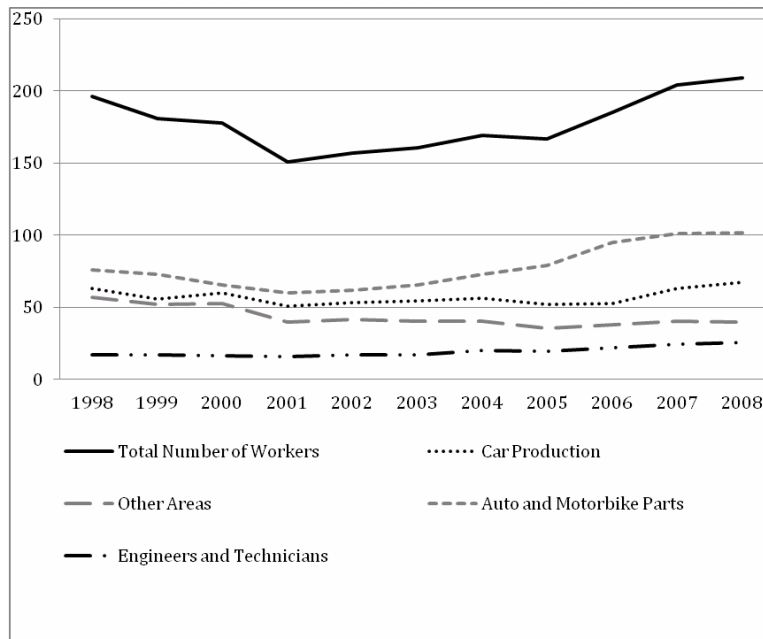
Currently, privately owned car manufacturers are becoming increasingly important in China. Among the most successful companies are BYD (*Biyadi qiche*) and Geely (*Jili konggu jituan*). These companies, the only POEs in the industry, ranked among the top ten Chinese car manufacturers in 2010 according to statistics published by the China Association of Automobile Manufacturers (2011) (*Zhongguo qiche gongye xiehui*, CAAM). However, for the foreseeable future the state will continue to be the major stakeholder in China’s car industry, just as SOEs and their JVs will continue to be the most important car producers. Therefore, this article will discuss labour relations in the car assembly sector of the industry with a particular focus on SOEs and their JVs.

The rapid growth of China's automotive industry has also led to the growth of an extensive network of domestic and foreign component suppliers in China (Norcliffe, 2006). In 2008 almost 2.1 million workers were employed in China's auto industry, the majority of them (almost 1,019,000) working in the supplier sector of the industry with an additional 675,000 working on assembly lines (see Figure 2).

The total amount of money generated by auto and motorbike part suppliers increased tenfold from 1998 to 2008, from ¥55.76 billion to ¥517.13 billion, respectively. This represents approximately 50% of the total value created in car manufacturing [China Automotive Technology Research Center, (2010), p.450]. Many of the companies in the supplier industry are involved in joint ventures with foreign component manufacturers which have set up shop in China in order to gain access to car manufacturers in China and to benefit from low labour costs. By 2005, more than two thirds of the global top 100 suppliers were operating in China [Holweg et al., (2005), p.35]. Due to the comparatively low collaborative and R&D capabilities of domestic suppliers, most of the key components for car manufacturing plants in China are still supplied by operations with foreign involvement [Lockström et al., (2011), p.17].

Labour relations in the component supplier industry, where most of the manufacturing takes place in small and medium enterprises, and in which the production process is generally labour intensive, have traditionally been less stable and secure than those of car manufacturers. Component manufacturers rely heavily on the work of young rural migrants and technical school interns, who are frequently employed under conditions which are much more precarious than those found in the assembly sector of the industry, as will be discussed later.

Figure 2 Workers (*gongren*) in china's automotive industry (10,000 workers)



Source: China Automotive Technology Research Center (2010, p.470)

3.2 Labour relations in the car assembly sector

The state-authored development plan which China has implemented in the automotive industry since the 1980s has influenced the development of labour relations in the car assembly sector of the industry as well. In these companies, the majority of which are Sino-foreign JVs, the production process has been adapted to mimic Japanese and Western models of lean manufacturing. However, employment relations and management practices continue to resemble those found in state-owned enterprises in other industries.

Boy Lüthje has categorised the model of labour relations prevalent in the assembly sector of the auto industry as ‘corporate bureaucratic.’ He writes, “These companies often pay the highest wages and salaries in the respective regions, their workforces consist almost exclusively of urban workers. Wage and incentive systems are similar to traditional Western multinationals, characterized by relatively high base wages (70-80% 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 co-opted into factory management, however, contract based regulation of wages and working conditions remains weak. Labor relations are stable, there is a growing number of individual labor conflicts, especially law suits by skilled employees with high aspirations regarding pay, working environment and career development” [Lüthje, (2011), p.105].

Most other recent studies published on the topic (Cho, 2006; IMF, 2007; Zhang, 2008, 2010; Zhao et al., 2008) confirm the existence of Lüthje’s ‘corporate bureaucratic’ pattern of labour relations in the automotive industry. However, some of the studies, particularly Zhang Lu’s extensive research on the labour relations found at various car assembly plants in China, also express concern about the increasing prevalence of worker discontent and worker grievance within the industry.

According to Zhang (2010), employment relations in China’s car assembly plants are currently undergoing a transition. This transition is fuelled by growing competition between manufacturers and is a result of the government policy which seeks to restructure the industry as well as China’s admission to the WTO. The original transformation of the workforce in the Chinese automobile industry took place in the 1990s when state-employed ‘iron rice bowl’ workers were replaced by young urban contract workers, many of whom worked under renewable short-term labour contracts. Today the assembly sector is undergoing a transition to a two-tier system, with large numbers of semi-skilled rural and urban dispatch workers (*laowugong*, labour service workers) hired through labour service agencies complementing the core workforce. *Laowugong* are formally employed by labour dispatch agencies and work in the car factories under short-term service contracts. Since these labourers are not directly employed by the car factory, employment protection legislation does not apply to them and they can be dismissed without severance pay. Zhang (2010, p.18) estimates that about 80% of the temporary workers in the car assembly sector are dispatch agency workers, while the remainder are rural migrants and student interns.

In his 2004–2005 study of the Shanghai branch of Volkswagen, Cho (2006) found that of the factory’s 15,000 workers, around 6,000 had been dispatched by labour service agencies, and that these *laowugong* received wages similar to those paid to first-year regular workers. However, the wages for dispatch workers remained at this same low level beyond the first year, so that their pay was generally lower than that of standard workers. At the Shanghai branch of Volkswagen, up to 30% of the workforce is dispatch

workers. This fact may in part be explained by the shift in the company's position in the Chinese automobile market. Founded in 1985, Shanghai Volkswagen was one of the first Sino-foreign joint ventures in the industry. Government policies, subsidies and protection enabled the company to secure market shares of over 60%. In the 2000s, increasing competition and government pressure to consolidate and streamline the industry led to a rapid decline in Shanghai Volkswagen's market share, causing the company's management to create a more flexible system of employment. At this point the company began to employ *laowugong* in high numbers. In addition to being less well paid than other employees, *laowugong* do not become eligible for permanent contracts after ten years of employment.

The trend towards a two-tier workforce is confirmed in a study completed by Zhao et al. (2008) which investigates two JVs. The study's authors note that in one of the two companies around 80% of the staffs are hired through labour service companies who offer the employees one-year contracts [Zhao et al., (2008), p.44]. Even though these workers receive the same training and are eligible for the same welfare benefits as their regularly employed colleagues, their wages are lower. The company decided to employ short-term contracts as a means to increase the workforce during times of high demand (while also extending working hours) and to then let workers go during economic downturns.

In her field study of the assembly plants of seven carmakers, Zhang Lu found that only the four oldest car manufacturers had established a two-tier employment system [Zhang, (2010), p.2], with 15 to 30% of workers being *laowugong*. The contract terms of regularly employed workers were usually extended with seniority and permanent contracts were offered after ten years of employment. In contrast, labour dispatch workers were hired on renewable three-month to one-year contracts (see Zhang, 2010; Table 2). The wages of dispatch workers were in some cases found to be as low as 50% of the income of regular workers, and never to be higher than 75% (Ibid; Table 4).

According to Zhang, the introduction of a two-tier system may represent a stage of transition in the development of employment relations in China's automotive industry, with SOEs and JVs seeking to normalise more flexible labour contracts even for the core workforce. While labour relations with the core workforce – characterised by high wages, generous benefits and relatively secure employment – still resemble those found in SOEs of other industries, dispatch workers generally receive lower wages, fewer benefits and a lower degree of job protection than that required by law for the core workforce [Zhan, (2010), p.2].

Less protected and less well remunerated forms of employment have been a consequence of the restructuring of the workforce and have led to growing discontent and resistance on the part of workers. Another factor in this growing discontent is the introduction of a work system known as 'lean production' at all major car manufacturers. Lean production has resulted in harsher working conditions, including repetitive and tedious work, heavy workloads, a fast pace and long hours. Shifts are usually ten hours long and can be extended up to twelve hours during periods of peak production [Zhang, (2010), p.21].

Wages and benefits in the automotive industry have generally been higher than in other manufacturing jobs. But while wages at car assembly plants have been stagnating, average local wages have been increasing. In interviews, more than three quarters of workers stated that they felt they were underpaid in relation to their hard work and their

company's economic success. Also, workers felt that the wage gaps between workers and management was exceedingly unjustified [Zhang, (2010), p.23].

Apart from a general decline in workplace morale and work efficiency, formal workers at China's car manufacturers have apparently shown little active resistance to the harsher working conditions. Temporary workers, however, have more openly opposed their working conditions, as their wages and job-security are considerably worse than those of regular workers. Sabotage, slowdowns, absenteeism, collective resignations and even strikes, though rare, have been used to resist excessive overtime or to demand wage increases and back pay [Zhang, (2010), p.28].

As with China's labour relations in general, enterprise-level unions in the auto industry often find themselves in a conflicting position which prevents them from appropriately representing workers' interests and protecting their rights. Factory union cadres generally accept their dual role in the Chinese system of labour relations. As factory unions are under the leadership of the Communist Party, they have the dual role of assisting management in the mobilisation of the workforce to increase productivity and simultaneously protecting and representing workers' interests. Even as labour relations in the automotive industry appear to become more prone to conflict, as demonstrated above, auto industry union cadre remain reluctant to recognise the conflict of interests generated by the dual role of unions. Ultimately, it seems this dual role might hamper their ability to effectively represent workers' interests [Zhang, (2008), p.37].

In their dual role, factory unions and party committees in automobile industry SOEs and JVs aim to establish 'hegemonic consent' between workers and management. They do this by helping management to push through measures that adversely affect the workforce, such as downsizing and restructuring, while also protecting workers from the harsher realities of market-style labour relations found in other sectors of China's manufacturing industry. It is not surprising, then, that even foreign joint venture partners accept the role of the Party and its unions in their JVs, as the unions mobilise the workforce to increase productivity, mediate between the management and the workforce, prevent worker from establishing autonomous unions, and thus promote labour peace in general [Zhang, (2008), p.38].

In 2006 the International Metalworkers' Federation conducted case studies of labour relations at the Beijing Benz-Daimler Chrysler and Beijing Hyundai Motor plants. The results of this study appear to confirm the dual role of unions in the Sino-foreign joint ventures of SOEs. Both factories have strong trade union organisations, with full unionisation among workers and six to seven full-time cadres each, among whom the union chair is also chair of the factory's party committee. The union's strong ties to the party allow the factory unions to actively shape labour relations in the plant in consultation with the management. The cadre of both unions have also expressed their desire to cultivate non-confrontational relations with management and to mediate between workers and management to create 'win-win situations' [IMF, (2007), p.54, p.58]. The union's dual role, which is reflected in its self-image as a mediator, precludes a decisive representation of workers' interests, as can also be seen in the union's role in the Hyundai plant's LDMC. In accordance with the general structure of LDMCs, the union representative assumes the role of chairman of the committee and acts as a neutral mediator between management and worker representatives.

Zhao et al. (2008) find that in both JVs studied company union heads had strong ties with the CCP and the management. In one case, a unionisation rate of 95% potentially put the union in a good bargaining position with the management, but the factory union

chairman was also the chairman of party affairs at the company as well as a member of senior management, facilitating “close and amicable relations between the union and management” [Zhao et al., (2008), p.45f]. Nevertheless, both company unions appear to have had some influence in preventing layoffs and other decisions that may have negatively affected the workforce.

As in other industries, the ambiguous role of unions has led to a high degree of worker dissatisfaction with their unions' work. In a survey of workers at three SOEs in the auto industry, Nichols and Zhao (2010) found that almost half of the employees at these three factories considered their own union's performance to be poor or very poor. Among other reasons for their dissatisfaction, workers complained that they were not involved enough in union decision-making and that their interests were not satisfactorily represented by union staff. This latter sentiment was confirmed in interviews with workers cited in Zhang (2008, p.37).

3.3 Labour relations in the auto parts supplier sector

Recent instances of labour unrest at various auto parts factories in China, of which the 2010 strike at Honda Auto Parts Manufacturing (CHAM, *Bentian qiche lingbujian youxian*) in the Guangdong province is a good example, have demonstrated that China's auto industry as a whole has become vulnerable to rising levels of labour unrest. There is even less systematic research available on labour relations in China's automotive parts industry than on labour relations in the car assembly industry. To be able to analyse patterns of labour relations and conflict in the sector, the authors of this paper decided to focus on CHAM, a joint venture of Honda and the Guangzhou Automobile Industry Group (GAIG, *Guangzhou qiche jituan*).

Labour relations in the automotive parts industry are far less stable than in the auto assembly sector. Following Lüthje's (2011, p.105f.) categorisation of labour regimes in China, labour relations in this sector of the automotive industry can be characterised as traditionally low-wage regimes, with technologically poorly equipped factories and simple work organisation. Labour regimes of this type rely heavily on rural migrant workers, most of whom are housed in factory dormitories. The base pay of these workers is usually low, but they may receive bonuses and extra payments to cover expenses such as food and insurance. Wages differ significantly between assembly line workers, technicians and management. Unions rarely exist in these factories, and where they do exist, they are usually dominated by management representatives.

The wages paid at CHAM were low and the workforce was composed primarily of temporary intern workers. This finding is consistent with Lüthje's general characterisation of employment relations in the supplier industry. The plant union has close personal links with management, and due to this relationship the union failed to appropriately represent workers' interests. This ultimately led to the worker's decision to go on strike. According to a report by the Hong Kong Liaison Office of the International Trade Union Confederation (IHLO), basic wages for regular workers were as low as ¥675 (US\$ 100) per month, well below the legal minimum of ¥750 (US\$ 110), allowances and bonuses not included. Intern workers were paid even less, earning just ¥500 (US\$ 73) per month. Adding bonuses and subtracting insurance premiums, these two lowest-income groups received between ¥900 and ¥1,200 (US\$ 130–175) per month [IHLO, (2010), p.8]. CHAM uses a system that is similar to the two-tier system found in automakers' plants and described in the preceding chapter. CHAM has a core workforce of regular

employees who make up about 20% of the total workforce, with the remaining 80% being student interns from technical schools. The plant's union head, who was not elected by the workers, is a member of the plant's management [Hui, (2011), p.137].

Lüthje's characterisation is also confirmed by Zhao (2010), who found similar features of labour relations in her 2007 study of an SOE-owned auto parts plant with over 1,100 employees. The plant employs a core workforce and a large number of migrant workers. All the workers are employed under five-year contracts; permanent contracts do not exist. Lean production techniques have been used since 2003, as the company struggles to compete with price and quality pressures on the international market, to which it exports about one quarter of its products. Lean production is understood by the plant's management to be first and foremost a means to increase control over the work process, while the option of production methods that involve worker participation were ignored. Workers who fail to comply with standards face monetary penalties. During the nine-month peak season, employees usually work 12-hour shifts, six days a week. The management's view on overtime was that no auto manufacturer, especially in the supply sector, could afford to comply with the working hour requirements of the labour law. Salaries included a base pay of ¥300 per month, with bonuses paid depending on attendance, pieces produced and raw material consumption. As with all SOEs, the plant has its own union organisation, but their full-time staffs have been reduced to one person who also has management responsibilities. During the plant's restructuring the union was not consulted and collective contracts were not negotiated. As a consequence, more than half of the workers expressed dissatisfaction with the union's work and did not feel that their interests were adequately represented, as was the case at CHAM.

The following description of the strike at CHAM may serve to illustrate how ineffective the current system of workplace labour relations is when it comes to dealing with labour conflicts once they have erupted. It will also show that the system itself is indeed one of the things that cause the workers' grievances and complaints. The strike at CHAM began on 17 May 2010 with demands for higher wages and improved working conditions. The dispute soon led to work stoppages in at least four other plants due to interruptions of the supply chain in Honda's just-in-time system. After 21 days, on 7 June, the strike was brought to an end when a deal was reached that met most of the workers' demands.

The strike at Honda Foshan is a clear indication of the failure of the institutions that are nominally responsible for the management of labour relations and labour conflict. In particular, it is an indication of the failure of the plant's union. Workers resorted to an independently organised strike only after the union had repeatedly failed to present the workers' demands to the management. As the strike unfolded, the labour conflict resolution procedure failed because the striking workers criticised the mediation attempts made by local and district-level organisations of ACFTU for being dishonest and one-sided in favour of their plant's management. Relations between the workers and the management broke down completely when attempts by union representatives to forcibly dissolve a workers' assembly led to physical altercations.

In response to this failure, the workers extended their economic demands to include the reorganisation of the plant's union. In doing this they placed the events around the strike in the wider context of labour relations and worker's rights in China in general – an openly political move unheard of in labour disputes in China since the 1980s. The labour dispute was finally resolved by a special negotiation board consisting of management and union representatives. The board agreed to negotiate with ad-hoc and freely elected

workers' representatives, who were allowed to bring in Prof. Chang Kai of Beijing's Renmin University as a legal advisor. The meeting was also attended by high-level officials, such as Zeng Qinghong, the general manager of GAIG, vice-president of the company's party-branch and a member of the National People's Congress (IHLO, 2010).

In the immediate aftermath of the strike at CHAM, at least twelve other strikes broke out in the automotive supplier sector (see Table 2). These strikes are due to the industry's difficult working conditions and generally inadequate, to non-functional, system of worker representation via factory unions.

For the automotive industry in particular, the strike highlighted two issues. Firstly, China's automotive industry has developed to a point where a complex and interdependent production infrastructure has significantly increased the bargaining power of its workforce through the disruptive potential of work stoppages (Zhang, 2010). Secondly, with no effective and universal worker representation structure and/or labour conflict resolution mechanism in place, workers' grievances and demands will not be heard and addressed until spontaneous protests and strikes break out (Nichols and Zhao, 2010; Heng, 2010).

Table 2 Strikes following the CHAM workers' strike in 2010

<i>Date</i>	<i>Affected company</i>
7 June	Foshan Fengfu Auto Parts
9–15 June	Honda Lock Co.
16 June	Omron Co., Ltd. (Guangzhou)
17 June	Nihon Plast (Zhongshan) Co., Ltd.
17 June	Tianjin Toyoda Gosei Co., Ltd.
17 June	Wuhan Auto Parts Alliance Co., Ltd.
18 June	Miyasaka Fuji (Zhongshan) Co., Ltd.
22 June	Denso (Guangzhou Nansha) Co., Ltd.
23 June	NHL-UNI Sprong (Guangzhou) Co.
13 July	Atsumi Metal Co., Ltd., Shishan
15 July	Tianjin Mitsumi Electric Co.
17 July	Nihon Plast (Zhongshan) Co., Ltd.

Source: Hui (2011, p.145)

4 Conclusions

Industrial labour relations in China are deteriorating and China's automotive supplier industry provides a good example of this general trend. Given the vulnerability of its supplier networks, its state-designated status as a strategic industry and the public and media attention paid to it, the auto industry may very well remain at the forefront of labour conflict in China in the coming years, as was the case with the CHAM originated strikes of 2010.

Labour relations in the assembly sector of the auto industry, a branch of the industry that has previously never witnessed any strikes or work stoppages, have been far less affected by labour conflict than those in the supplier sector. The reason for this

divergence between the two sectors of the industry is that the original transition from socialist to market labour relations in the assembly sector took place under the conditions of state protection of large SOEs. Amongst other things, this provided workers with privileged conditions of employment. The supplier sector, on the other hand, has been dominated by SMEs, has a lower level of state-ownership and has been subject to stronger market competition. For this reason the employment of migrant workers and interns at low wages and under precarious conditions has become standard.

However, as demonstrated in the work of Zhang Lu and others, working conditions are deteriorating in all sectors of the automobile industry as competition tightens. The existing system of labour relations appears to be ill-equipped to deal with the conflicts looming ahead, as is made evident by the introduction of a two-tier model of employment, dividing core workers from temporary workers at many assembly plants, and the adoption of lean production methods. In China in general, and in the auto industry in particular, the central issue for labour relations is the inadequate representation of workers interests and demands and the lack of protection of their legal rights. The current labour relations system, in which unions are intrinsically linked to the party state and committed to management interests, making unions unable to effectively function as workers' representatives, is responsible for this situation.

The current deficiencies of the system and its inability to cope with the rising level of labour conflict should instil some sense of urgency in the concerned actors to change and reform the existing system of labour regulation in China. However, the possibilities and limits of reform are quite unclear. The immediate issues are how to promote and implement the rights of workers in the workplace, and how to empower unions as workers' representatives. Such a system also needs to have the potential to actually manage the diversity of labour and employment relations, which range from the ultra-modern assembly lines of global enterprises to the precarious and poor production and labour conditions in the second- and third-tier lines of automobile suppliers.

This problem raises the question of who should be the main actors of labour regulation in the future. The question is not whether companies should be state-controlled or privately controlled, but is instead how to introduce a structure of collective and corporative actors who are somehow independent from direct political intervention. There is a need for an independent labour dispute settlement system as well as independent unions and/or workers' representation bodies.

It could be argued that on the surface the party state's intrinsic involvement in labour relations is merely a remnant of socialist times, bound to dissolve as the pressures of the market economy result in further reforms that will eventually lead to an effective system of labour relations. However, a closer look reveals that the existing system of labour relations rests on the fundamental organisational premises of one-party rule. Any fundamental reform of the labour relations system that would allow labour and capital to face each other as independent parties would also necessarily entail abandoning the system of co-optation of social interests by the party's mass organisations and instead allowing the autonomous organisation and articulation of social groups' interests. In other words, the democratic organisation of social interests is a prerequisite for an independent system of labour relations. Under the current situation, then, the political interests of the CCP represent the strongest obstacle to fundamental labour relations reform.

Although the current situation in labour relations is highly volatile, and apparently there is no stable, democratic and sustainable model of labour relations in sight, one should not underestimate the capacity of Chinese actors within the existing labour regime

to generate short-term and ad-hoc solutions to problems. Whatever the future may hold, the automobile industry is highly likely to be at the forefront of developments in labour relations, and may even be a driver of reform.

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