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CLASS FORMATION OR FRAGMENTATION? ALLEGIANCES AND DIVISIONS AMONG MANAGERS AND WORKERS IN STATE-OWNED ENTERPRISES

Kun-Chin Lin

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Kun-Chin Lin received his PhD in Political Science from UC Berkeley in 2003. His fields of specialization are comparative politics, international political economy, East Asia, and methodology. His dissertation, "Corporatizing China: Reinventing State Control for the Market," explains the evolution of industrial organizations that contain both market and hierarchical principles, as largely political responses to the pressures of post-socialist political economy and integration with the global market. Research for this paper was funded by the Fulbright-IIE Scholarship and David Boren Graduate International Fellowship. Lin has published on topics of multilateral regimes and government-business relations in Asia, and taught at top political science programs and business schools including Berkeley, Oxford, INSEAD, and Bocconi. As a Visiting Fellow at the Kellogg Institute in Fall 2003, he compared emerging state-market relations in China and Latin American economies with a legacy of resource-based development and recent experience in fiscal decentralization and structural adjustment programs.

KEYWORDS: post-communism, market reform, industrial relations, class politics, social movement, China.

ABSTRACT

This essay argues that crosscutting allegiances between managers and workers, and between existing workers and ex-workers, have formed strong social and psychological bases for sustained collective action and inaction during a period of organizational transformation in contemporary China. This thesis challenges the conventional wisdom that implies either class formation during marketization or the failure of such as an explanation for the alleged limits of the working class in mobilizing to defend its social contract against the central state. Through in-depth case studies of Chinese oilfields and refineries, I identify patterns of fragmentation deriving from intergenerational differences among the workers, managerial incentive structures, and the continuing reworking of patron-client relations between subgroups of workers and managers. I conclude that managers' and workers' passive and active responses to the state's rapid dismantling of the socialist notion of "class" in a self-sufficient work unit have placed a tangible social limit on authoritarian institutional innovation.

RESUMEN

Este ensayo sostiene que las alianzas transversales entre gerentes y trabajadores y entre trabajadores actuales y ex-trabajadores, han dado fuertes bases sociales y psicológicas para la acción y la inacción colectivas durante un período de transformación organizacional en la China contemporánea. Esta tesis desafía el saber convencional, que postula o bien la formación de clases durante los períodos de mercantilización o el fracaso de tal formación como explicaciones para los supuestos límites a la movilización de la clase trabajadora contra el estado central en defensa de su contrato social. A través de profundos estudios de caso de yacimientos y refinerías chinos, identifico patrones de fragmentación que derivan de las diferencias intergeneracionales entre los trabajadores, las estructuras de incentivos gerenciales y la redefinición continua de relaciones patrón-cliente entre subgrupos de trabajadores y gerentes. Concluyo que las respuestas pasivas y activas de los gerentes y de los trabajadores al rápido desmantelamiento estatal de la noción socialista de "clase" en una unidad de trabajo autosuficiente han puesto un límite social tangible a la innovación institucional autoritaria.

I. INTRODUCTION

This essay explores the fundamental dynamics of employee mobilization under the condition of shifting boundaries of the post-socialist firm. Through case studies of a wide range of non-compliant behaviors of managers and workers in oilfields and refineries in China, I show that the central state's institutional innovations to reassert control over state-owned enterprises (SOEs)—in particular streamlining the workforce, hardening budget constraints, and formalizing and standardizing labor contracts—have created an informal environment of fluid allegiances among employees and ex-employees. I emphasize the crosscutting allegiances between managers and workers, and between existing workers and ex-workers, as forming strong social and psychological bases for sustained collective action and inaction during this organizational transition period.

My analysis serves as a corrective to the conventional wisdom that implies either class formation during marketization or the failure of such as an explanation for the apparent limits of the working class in mobilizing to defend its social contract against the central state. I suggest, instead, unpacking the conceptual notion of the socioeconomic "class" to incorporate cleavages among workers and ties that link them to managers even after the end of their iron rice bowl tenure. Specifically, I identify patterns of fragmentation deriving from intergenerational differences among the workers, managerial incentive structures, and the continuing reworking of patron-client relations between subgroups of workers and managers in a highly uncertain transitional environment. I conclude that managers' and workers' responses to a decimation of the prior notion of "class" have placed a social limit on authoritarian institutional innovation.[1] While disadvantaged employees and ex-workers have little formal recourse to the latest central fiat, through their staging of dramatic standoffs and engaging in mutually sympathetic verbal or resource negotiations, they have measurably frustrated the state's intended separation of constituencies formerly bound within the relatively self-sufficient work units and undermined its advocacy of a notion of efficiency derived from atomized agents.

II. FRAGMENTATION OF THE WORKING CLASS AND IMPLICATIONS FOR MOBILIZATION

Ching Kwan Lee has pointed out: “Workers’ experiences do not form a coherent template, nor are they uniform across subgroups of workers. That is, contradiction and fragmentation characterize workers’ consciousness and cultural understanding” (Lee 1998: 15). In order to more precisely disaggregate the varied experience of workers as they face the prospect or the reality of losing their iron rice bowl, one needs to address three sets of questions: First, the role of the nascent market and market competitive forces in shaping workers’ actions. Do workers’ acts of resistance necessarily imply an anti-market mentality, or might the workers be acutely aware of “market as politics?” (Fligstein 1996). Second, what have been the main cleavages emerging from dismantling the state-owned enterprises? And third, what does fragmentation imply for the form and potential for autonomous mobilization of subgroups of workers or cross-class involvement by managers? I find the anti-market interpretation of Chinese labor mobilization problematic, and consider how divisions based on socioeconomic differences and political status among workers may form the bases for collective action.

A. The Impact of Market Forces and Reform Policies on Workplace Politics

There is no question that intensified competitive pressures and their fiscal consequences on the central and local states have triggered the introduction of radical workforce reduction policies and their rigorous implementation since 1997. However, it does not follow that workers accept “market” pressures as exogenous to central policy and local implementation, and non-controversial as the root cause of their material losses. Furthermore, even if given the above, it would seem simplistic to assume that workers rebel in direct response to the encroachment of the market on their past entitlements. Comparative political and historical studies inform us that there is no direct correlation between the degree of exploitation or impoverishment and the frequency and likelihood of collective action.[2] To suggest such a link would mean that we implicitly accept a rarefied and, as this essay will show, inaccurate understanding of officials and enterprise managers as the "visible hands" acting on behalf of the unmediated forces of the market economy.

To a significant degree, the assumptions above underlie much of recent area studies literature on workers in China. Dorothy Solinger explains shifts in the "principles of provision" of unemployment insurance and enforcement of Regulations on Labor Contract by referring to the aggregate number of surplus workers being expelled from inefficient enterprises (Solinger 2003: 4). She states that "the pressures, practices, and postulates of the market—the new activating mechanism—have so far mainly served to aggravate and exacerbate" the institutional inadequacies in welfare provision (19). Ching Kwan Lee attributes the rise of a "despotic" regime in the workplace to competitive environments that sapped the slack resources of SOEs and led to the centralization of authority in the hands of the management at the expense of representations of workers and the Party.[3] Similarly, Mary Gallagher finds competition to attract foreign capital has brought about a convergence in the treatment—or more precisely, the mistreatment—of migrants and original SOE workers in the late 1990s (Gallagher 2002: 357–59).

Furthermore, much of the same literature holds a strong premise that as economic conditions in the state sector worsened, the workers have displayed greater coherence of frustration and unity of action.[4] Zhou Xueguang (1993) postulates that the legacy of uniform state structures in organizing workplaces has produced individuals with similar claims, patterns, and targets, thus easing the barriers for collective action. From her direct observations in a Beijing printing factory, Mayfair Yang argues that structural and role ambiguities facing enterprise managers underline their credibility for pursuing the corporate interest in the eyes of the workers, over time leading to confrontations that strengthen the solidarity among workers.[5] Extending Zhou's argument, Mary Gallagher predicts that "[t]here is … little chance for SOE reform to lead to fragmentation and increased competition between workers … [as] changes in enterprise behavior tend to strengthen worker resistance to reforms that threaten their privileged position" (Gallagher 2002: 364). Accounts from journalists and labor-rights watchdogs have similarly emphasized the increasing coordination and unity of workers' mentality and specific claims that they take to the streets.

B. Fragmentation of the Working Class and Its Implications for Mobilization

Two divergent historical perspectives challenge the above presumption of a coherent working class, instead supposing divisions among workers as the norm in state firms. Modifying the neo-traditional image in his 1986 study, Andrew Walder (1991) notes that, as enterprise reform deepened, the weakening of the clientelistic ties between managers and activist workers—driven by decline of ideology in the workplace, dwindling work unit resources, and institutional changes such as the introduction of production bonus schemes—made redistributive politics even less principled and more contentious.[6] Furthermore, the "us" vs. "them" division no longer falls neatly along political lines, but increasingly involves the majority of workers who have become demoralized, politically cynical, and concerned with what they perceived as unfair income differentiation mechanisms.[7]

In contrast, Elizabeth Perry argues that "[i]nstead of political status, socio-economic and spatial categories … were the more salient lines of division" among workers employed in burgeoning joint-ownership enterprises in Shanghai in the mid-1950s. She identifies young apprentices, recently laid-off workers, and temporary workers, etc. as important subgroups displaying varying motivations and styles of anti-authority claims. Furthermore, "the fragmentation of labor could itself provide a basis for working-class militancy" such as during the riots in Shanghai in the spring of 1957 (Perry 1994: 14).

Ching Kwan Lee confirms the historical insights of Walder and Perry in suggesting that divergences *across firms* in workers' experience under reform stem chiefly from the varying economic profile of the firms, such as the degree of competitiveness and level of financial endowment of the workplace, which in turn translate into actual wage levels, welfare entitlements, and housing ownership.[8] While appearing to conform to Perry's socioeconomic markers, many of these characteristics reflect the economic legacy of an enterprise's former position in the highly politicized and stratified "socialist production hierarchy."[9] However, Lee asserts that neo-traditional ties have largely fallen by the wayside as managers gain absolute power, workers reconfigure their dependency relations toward the market and familial networks, and the party-state withdraws from political intervention. Consequently, fragmentation leads to despotism and resistance.

Further complicating the socioeconomic and spatial divisions are the shifting boundaries of the household registration system (*hukou*) and work unit (*danwei*), which had mutually reinforced the organization of "resource dependency" relations within socialist enterprises since the late 1950s.[10] Historically, *hukou* codified spatial and state-supplied entitlement hierarchies for the main purpose of enforcing the urban and rural divide (Cheng and Selden 1994); however, the actual functioning and resulting extent of differentiations of *hukou* depends to a large extent on local decisions by cadres and managers and on the changing nature of the work unit. The oilfields and refineries in this study constitute an interesting set of SOEs in that their location and recruitment pattern bridge the urban-rural divide. Due to geological and "third front" imperatives, they were not placed in cities with a diversified economic base (with the exception of Shanghai Petrochemicals); yet they have sufficient economic dynamism and political clout to beget towns and cities that absorb neighboring rural land and population and enable administrative and economic upgrades for their localities. When these SOEs went through expansionary phases in scale and workforce—notably during the late 1970s, mid-1980s, and early 1990s, when over-investment reached a feverish pitch—state managers often dealt with these *hukou* and *danwei* status issues rather flexibly, offering benefits to non-permanent workers without conferring the appropriate formal status. These cavalier gestures represented a form of managerial largesse or compensation for taking land or alternative livelihood away from the incorporated peasants, their progeny, or demobilized soldiers.[11]

Since they have been regularly and systematically brought into and retained by the SOEs throughout the reform era, the temporary workers discussed in this essay are not as transitory in their actual tenure and expectation of tenure as the mobile migrants toiling on construction sites in booming cities (Solinger 1995). When the SOEs faced deep restructuring and drastic reductions in employment and property rights in the late 1990s, these underlying formal status differences became ready selection criteria for layoff policies and the closely associated reductions in public amenities such as housing, utilities, education, health care, etc. Just as the economically compelled incorporation of migrants into cities has eroded the existing "urban public goods regime" grounded on an exclusive urban *hukou* (Solinger 1995), successive cohorts of incorporated workers have challenged the bureaucratic conception and legitimacy embodied in the principles and methods of enterprise reform as dictated by Beijing.

C. How Fragmentation Shapes Collective Action or Inaction

In my case studies below, I suggest that many of the most contentious cleavages between managers and workers or ex-workers and within each group have resulted directly from institutional manipulations by reformers in Beijing. This is not to discount the importance of socioeconomic and political divisions prioritized by the above-mentioned theorists. Nonetheless, I will highlight the complexity of motivations and shifting approaches to collective actions. Different types of cleavages work in different ways given the specific status, resources, and objectives of individual claimants, and interactions with the strategies of other claimants in similar situations. Neo-traditionalist ties between subsets of managers and workers, socioeconomic divisions among workers, and old and new institutional barriers to free associations among workers could work sequentially, alternatively, or simultaneously to enforce the ex-workers' claims.[12] Similarly, current employees could pursue "collective inaction" at the shop-floor level, but then join in protests and riots when circumstances improved the odds of overt expression of dissatisfaction.[13] Table 2 in the Appendix indicates some of the key directions of strategic maneuvers as workers move from a position of compliance to active resistance of enterprise reform.

Some of the salient differences between the authors mentioned above and my case studies below reflect case selection biases: most of the former were based on direct observations and interviews in factories located on the coastal cities, while I did my fieldwork in natural resource extraction and processing industries often located in remote areas of China. I would venture to suggest that for most of China, my case studies more closely approximate the dynamics of workplace politics. Most SOEs in China are not located in areas of relatively high labor and capital mobility, transparent competitive forces between public, private, and foreign-owned sectors, and restrained central and local state intervention in the reform process. In the final analysis, my case studies do not contradict previously mentioned efforts, but provide an alternative context that highlights previously overlooked mechanisms of labor and managerial mobilizations. All of the studies will over time fit into a broader pattern, once data becomes more readily available, but for now we must be content with partial images that complement each other and point to some situational considerations for explaining working-class action or inaction.

III. CHANGING THE WORKPLACE IN CHINESE OILFIELDS AND REFINERIES[14]

In the fall of 1998, PRC Premier Zhu Rongji directed the Chinese oil and petrochemical sectors to reconsolidate all assets and operations into three integrated and territorially protected national oil corporations (NOCs) in which the state holds the controlling share. The restructuring of oilfields and petrochemical industries in 1998–2000 was not only the largest asset reallocation event in the reform era, but also the most successful one by the scope and speed of reform implementation and short-term financial returns. The Chinese reformers established oligopolistic competition between two onshore, integrated oil giants—CNPC/PetroChina and Sinopec, roughly demarcated along the territorial boundary of the Yellow River—and an offshore, specialized company (CNOOC). Nearly all state-owned oilfields, refineries, and petrochemical plants have been incorporated into these national oil corporations; henceforth the NOCs' corporate headquarters in Beijing manage their resource allocation and exchange relations as intra-firm issues, while responding directly to price signals in the domestic and global markets. Under a highly centralized multidivisional form of industrial governance, SOEs as subsidiaries of NOCs have been effectively turned into cost centers, a dramatic change from their status as profit centers under the contract responsibility system of 1982–1997. The following section describes how the implementation of hard-budget constraints and financial controls has led to a fundamental realignment of the intra-firm interests of the resulting subsidiaries of the NOCs.

A. Restructuring the National Oil Corporations

At the microeconomic level, the central state has chosen to rely on the organizational levers of a highly centralized "financial principle of control" (Fligstein 1990) based on a few prices and price-derived signals that would bring profit-maximizing discipline into the SOEs, especially in the *core* subsidiaries (henceforth called the core parts) that have concentrated the most valuable assets and a relatively lean workforce drawn from the former SOE. The bulk of unprofitable assets and workforce, including those work units involved in production and technical services and provision of social services and local public goods, have been lumped under the *noncore-unlisted* company (henceforth called the noncore parts).[15] The core-noncore line of demarcation refers loosely to the relative importance of the assets and associated processes and skills to the essential production profile of the company. In actuality, and as a strategic response to maximize the value of initial public offerings of the core subsidiaries, operational units were tagged as core or noncore based mainly on their contribution to the profitability of the listing shareholding concerns.[16] As nominally independent companies, core and noncore parts work together under a new contractual framework defined by the parent corporation. Given its new demand for improved control and fiscal extraction as the dominant shareholder, the state expects the core part to generate maximum profit through the exploitation of its asymmetric contractual relationship vis-à-vis the noncore part.

In many ways, the state expects even more from the noncore part—it would bear a large portion of the costs of restructuring by offering services to the core company at rates that could generate profits for the latter, and it must reduce its chronic losses over time through tough measures such as massive layoffs and property rights reform. For production and technical services teams of the noncore part, the operational requirement of the "cost control" targets has become increasingly clear—it means there is *not* an a priori fixed-term contract. The contract between the service teams and core operations stipulates an estimated workload, to be accomplished at all costs to the service unit, with no certain reimbursement in its final wage bill. In fact, the final value of the contract is purely circumstantial to the financial considerations of the core business. If a subsidiary falls short of meeting corporate headquarter's targets, then the latter imposes penalties including wage and bonus cuts, denial or postponement of project approval, and other financial penalties as described above.

The above radical institutional changes to replace administrative hierarchy with corporate governance with an aim toward establishing hard-budget constraints would not confuse any worker or manager as anything but a highly politicized redistribution scheme initiated by elite politicians for the central government's revenue and control imperatives. It's equally clear that enterprise restructuring aimed to break down the cellular structure of social firms as moral economic entities; it should have the opposite effect of earlier experiments in decentralization and efforts to establish social democracy or widespread employee ownership. To put it more bluntly, the central state aimed to consolidate its control of assets by crowding out the implicit stakeholders under socialism.

B. Workforce Reduction by Fiat

Responding to foreign minority shareholders' preoccupation with the bloated size of labor forces in SOEs, NOC headquarters in Beijing have made promises to discharge tens of thousands of workers per year.[17] Since the profitability of the core part is directly tied to the cost baseline of its primary contracting partner—the noncore part—the pressure from their parent company on the latter to implement massive layoffs is, if anything, even greater. At a first glance, the objective need for workforce reduction in SOEs is uncontroversial: for example, in 2002 Luoyang Petrochemicals employed some 5,000 workers for five million tons of refining capacity, whereas a Japanese plant of similar scale would hire only about 500 workers. In other words, in order to attain the international standard of efficiency as measured by output-per-worker, Luoyang needed to fire nine out of ten workers![18]

Beijing started issuing more detailed layoff guidelines in 2001, which stipulated a total layoff figure as well as specific targets for key production units. Shengli Oilfield discharged over 9,000 workers in 2001, of which 800 belonged to the core part; in 2002, the noncore part alone strove to meet a layoff quota of 27,000 workers.[19] Furthermore, Sinopec has directed the noncore part to streamline its production and technical service teams as the first steps toward "restructuring for professionalization (*zhuanyehua chongzu*)." Specifically, Sinopec decided to pare down its drilling teams by setting targets for each of its subsidiaries; for incidence, Shengli had to reduce the number of its teams from 120 to 95 in 2001.[20] Furthermore, each unit is required to meet the target of employing 53 workers per machine; currently 59 workers work directly on each machine, and an additional 32 persons receive related employment from that work unit (e.g., a total of 91 employees to a machine). Issuing similar non-negotiable quantitative targets, Sinopec has demanded that other noncore parts trim their workforce by about 20% each year from 2001, to lead to a 50% reduction by 2005.[21]

C. The Evolution of *Xiagang* Policies in NOCs

In the past five years, Beijing authorities and SOE managers have revised layoff strategies in response to the financial constraints of the parent company. Generally, they set out to provide financial incentives to encourage workers to "sell back" their tenured labor posts to the SOE—a tactic called *maiduan gongling*—however, as the cumulative cost of this strategy became a drain on enterprise finances, the officials and managers pushed for alternative schemes that increasingly involve giving workers property rights instead of cash or benefits.[22] Prior to 1999, most oilfields and refineries could not force workers to step down from their posts (*xiagang*), declare a legal termination of their labor contracts (*maiduan gongling*), or end their work unit affiliation and associated benefits, as formal policies for restructuring the labor force.[23] However, managers in encouraging policy environments have taken creative measures to get around the rigidities of the socialist social contract, as highlighted in the following chronology:

> 1993 – Early retirement, but the retirees retained full wages and benefits.
>
> 1994 – An arrangement for workers to stay home while receiving a lump-sum compensation of two-months salary for every year worked, *in addition to* receiving half of their current salary every month.
>
> 1995 – Similar deal as the above, but reduced to a lump sum of one-month salary per year employed plus half of their salary every month.
>
> 1996 – Tightening restrictions for retirement, as workers began to cash in en masse in anticipation of the imminent policy change that would provide even less attractive options.

> 1999 – Concurrent implementation of contractual termination with financial incentives (*maiduan gongling*) and "internal" retirement (*neitui*). The second scheme, quasi-compulsive in nature, ushered middle-aged workers into a retired status with a similar financial package as *maiduan gongling* for ten years. Essentially, it aimed to provide a cushioned transition to "full" retirement with uncertain benefits and no affiliation with the work unit.

By 2002 Beijing had stopped promoting *maiduan gongling* and *neitui*. Instead, it strengthened the compulsory and unilateral prerogative of SOE managers to fire workers. Workers would sign a termination of employment agreement with diminished financial compensation and vague or no guarantee of unemployment benefits or living standard subsidies, which varied dramatically across geographic locations and work units. In addition, the state directed managers to design "privatization (*daizi fenliu*)" projects that would encourage workers to own state-owned assets in a separate legal status, thus in effect disentangling their historic reliance on the SOE.

Largely voluntary schemes before 1999 did not involve anywhere near the same number of workers opting out of their posts as *maiduan gongling* and *neitui*, which in turn paled in comparison to the scale of layoffs from corporate headquarters' fiats. However, these successive steps created psychological and material divisions among workers who received varying terms of *xiagang*. As the central government quickly ripped up the existing contract for a new deal, current workers and their *xiagang* ex-colleagues and the different generations of *xiagang* workers learned to continually reevaluate their relative positions. In 1995 the earlier *xiagang* cohort might have felt lucky in having taken the initial offers, yet by the late 1990s their deals would have compared unfavorably with those offered to *maiduan gongling* and *neitui* individuals. Later I will show how that these comparisons become motives for mobilization. For each period, managers faced the acute dilemma of piling on material incentives to speed up voluntary retirement or resignation, and increasing the financial burden on the SOE. The sweeter the deal, the less likely that the company or the state would honor it, until, step by step, Beijing officials and managers finally imposed the layoff policy with heavy handedness and abandoned all pretense of the "moral economy" of the state sector. For example, the noncore part of Luoyang Petrochemicals spent an average of 240,000 RMB per worker discharged through the *maiduan gongling* and *neitui* deals.[24] Assuming similar deals for the Zhongyuan oilfield in the same province, which discharged and retired over 16,500 workers in the same period, the financial outlay would have reached *four billion* RMB![25] For China's largest oilfield, Daqing, *maiduan gongling* amounted to about four billion RMB, or an average of 100,000 RMB per discharged worker. (See Table 4 in Appendix for summary of the above financial outlays.) Typically, *maiduan gongling* incurred costs that were equivalent to the enterprise's net profit for three to four years. These figures greatly exceed any prior estimates of local and central contributions to social welfare provisions for the unemployed SOE workers, and indicate the crucial importance of work units, especially those with a sustained flow of resources such as oilfields, in shouldering the burden of social stability.[26]

IV. WORKING-CLASS FRAGMENTATION AS A COMPLEX LEGACY OF SUCCESSIVE REFORMS

Since radical enterprise reforms and employment policies were introduced in 1997, protests and riots have rocked the industrial towns of Dongying (Shandong), Daqing (Heilongjiang), Luoyang and Puyang (Henan), Liaoyang (Liaoning), and Karamay and Urumqi (Xinjiang) where I conducted fieldwork from 2000–2002.

I suggest that patterns of mobilization of the working class show strong correlation with the "social contractual" terms between the state and workers and ex-workers. Contractual terms vary in several ways. First, among those still employed by the SOEs, I observe increasing incidents ranging from passive noncompliance to active sabotage on the part of employees, arising mainly from conflicts between the core and noncore parts inherent in the asymmetric and obsolescing contracts. Second, protests and unrest have been led by earlier generations of laid-off workers, not the recently discharged workers. Ex-employees who have barely a nominal or no formal link to the SOE continue to react to fluctuations in two "social contractual" terms: 1) the *explicit* "best offer" from the state for the workers to voluntarily terminate their labor contracts; and 2) the state's *implicit* assurance of gradual phasing out of various welfare provisions and guarantees of survival in cases of failure in pursuing alternative employment options.

A. Inter-generational Grievances of Laid-off Workers

As oilfields and refineries expanded dramatically in the late 1970s to early 1980s, and in the early to mid-1990s, several groups of workers were added to the initial body of workers, including demilitarized soldiers, children of the employees, recruits from cities, and farmers. These groups were brought into the moral economy under significantly divergent terms and subsequently networked differently.[27] For example, farmers typically sold their plots to the oilfield, which bought the land at above-market value and helped them and their family members obtain jobs with the enterprise and provided various utilities and other subsidies for their sideline activities. Temporary workers were often introduced to deal with the most labor-intensive tasks—colloquially labeled as laborious (*ku*), dirty (*zan*), tedious (*lei*), and dangerous (*xian*). Examples of these jobs in the oilfields include exploration, drilling, machine maintenance, pipeline guarding, etc.[28] Over time, the children of the first generations of workers also constituted a significant percentage of the workforce. As of 2001, around 10,000 of a total of 70,000 workers at the Zhongyuan oilfield had obtained their jobs as children of the existing employees. By 2002, Sinopec and CNPC subsidiaries formally ended the policy of providing jobs and other social services to the children of existing workers.

Understandably, these farmers and temporary workers, along with the most senior permanent workers who broke ground in those oilfields, were the first ones subject to various incentive systems for *xiagang* as discussed earlier. At the point of their first departure in the early 1990s, local economic conditions were generally rosy, individual decisions to *xiagang* voluntary, the severance package generous, and their superiors often offered verbal promises of support if things didn't work out. By the late 1990s, the remaining peripheral, non-permanent workers faced compulsory discharge en masse or retirement pressures with minimal social welfare provisions. On the other hand, the pecuniary terms of implicit guarantees of the more recent cohorts of discharged workers vary dramatically from those of their predecessors from ten or more years ago—typically higher in nominal terms—thus inviting mobilization by the latter to extract retroactive remuneration.[29] A long-time staff member of the State Development and Planning Commission confirmed my observation: "Yes, we have seen a multi-generational effect among the laid-off workers, who have run out of their severance compensation and feel that the current [higher] level of compensation is unfair. They are the ones leading the protests."[30] The following two stories of protests illustrate inter-generational grievances:

Story 1: Sources of Everyday Protests

Place and Time: Dongying, Shandong, home of China's second largest oilfield, Shengli, April 2001.

> A band of about a hundred women in their late forties to sixties mounted peaceful protests in front of the Shengli Oil Bureau every morning until 11am, slowing traffic and asking drivers to redirect their route—an equivalent of "Honk if you agree!" in America.
>
> The old ladies wore red headbands and ribbons pinned to their chests, "Give me back decades of blood and sweat money (*Huanwo jishinian xuehan de qian*)!" "Fighting for the Truth (*Wei zhenli er fendou*)!" or "Persistence is victory (*Jianchi jiushi shengli*)!" The last slogan rhymes with the name of the oilfield, suggesting that the tradition or the spirit of the oilfield pioneers rests with the protestors, not the current management. The old women were generally in high spirits, and the police did not intervene. However, in the adjacent Shengli Square, a battalion of riot police or local state militia (no PLA insignia) conducted exercises at the same time … clearly a show of force by the authorities.
>
> The old women themselves fell under the "family member (*jiashu*)" category of unskilled workers, who had worked mainly in public works, construction, digging, etc. for decades. Shengli originally started with a few hundred soldiers, but eventually they brought in over 30,000 family members. They've been discharged without receiving anything. I asked them, "For whom are you protesting?" They said, "For ourselves!" But a bystander explained to me that they were also protesting on behalf of their men who feared being beaten up if they had shown up themselves. They wanted the Oil Bureau to make compensation to reflect the rise in living standards and severance packages in the past two years.
>
> Their men had received one-time severance fees in the early to mid-1990s, which seemed plenty back then, but proved inadequate over time. They also lost medical coverage and other benefits. The severance fee was calculated as follows: 53 RMB/month X 12 months/year = 636 RMB per year employed. Someone who had worked at Shengli for 30 years received 19,080 RMB, which is equivalent to about US$2,310 at the current exchange rate.

Comparing the above fees to rates of 3,000–4,000 RMB per year employed given to recent *xiagang* or *neitui* workers, the older workers could make a strong case for unfair treatment even accounting for inflation. Personnel officials complained that while the one-time cash settlement was meant to last until the ex-workers reached the retirement age, when the national pension system would hopefully be in place, many ex-workers squandered that sum in luxuries, speculative activities, and investments in small enterprises that went bust in two or three years. Evidently, they had expected the SOE to continue guaranteeing their survival—managers conceded that individually and privately they might have not discouraged, if not outright instilled, this expectation to expedite the workers' acceptance of *xiagang*.[31] This anticipation of continuing post-contract bargaining does not appear to observe any fixed time lag; the fact that a worker might have signed the termination contract only months ago doesn't prevent him from comparing the deal offered to him to that offered to the next group of workers on the way out and mobilizing to demand parity.

Story 2: When Workers Successfully Make Demands

Place and Time: Luoyang, Henan, home of one the China's largest refineries, Luoyang Petrochemicals, June 2002.

> At Luoyang refinery, compulsory implementation of workforce reduction measures, including the "company buyout of work positions (*maiduan gongling*)" and "internal retirement (*neitui*)," have forced over one thousand workers out of jobs. Last year, *maiduan gongling* workers protested when wages rose subsequent to their contract termination. The refinery caved in and provided a partial settlement. A company official predicted mischievously, "They will be back … with the next policy adjustment in layoff compensation."
>
> Meanwhile, massive layoffs threatened to break the financial back of the ancient imperial capital of Luoyang. Henan is not a wealthy province. The local government had withheld payment of the full amount of unemployment (*xiagang*) compensation, which was barely 200–300 RMB per month per discharged worker. In comparison, Luoyang refinery had been paying 800–1,000 RMB per month to its retirees. If the pension responsibility were transferred to the local government under new State Council and Ministry of Labor and Social Security regulations, then it would clearly be impossible to sustain that high level of compensation for

> retirees of the Luoyang refinery. Consequently, the current beneficiaries have expressed opposition to and lobbied behind the scenes against the anticipated change in the welfare regime. This has become a lose-lose situation for the central state and the refinery—if the social security burden were effectively transferred to the local jurisdiction, then the retirees' dissatisfaction would become a ticking time-bomb for social unrest; but if the SOE continues to pay their pensions, then its labor-cost-reduction objective would be effectively undermined.

The above stories underscore the materialistic envy and relative deprivation that drive collective actions by laid-off and retired workers. However, there is a deeper implication—workers don't believe for a second the official posturing of market orientation.[32] Their rhetoric of golden days of socialism—much like the Mao-nostalgia of the late 1980s and 1990s that did not intend so much to bring about a backtracking to Maoist politics as to signal popular discontent with present-day corrupt politicians—attacks that top-down ideology, even as their practical strategies and demands aim to solicit limited concessions. While Chan (2001) and Lee (1998, 1999) have focused on the ideal image of socialism as the reference point for claims made by workers against the enterprise and the government, my analysis above urges caution in taking the evocations of socialist norms at their face value.[33] In short, workers neither buy into the new norms advocated by Beijing and its local propaganda and trade union representatives, nor adhere to the past utopian ideal—in actuality, they make overwhelmingly practical demands based on what they perceive as the likely parameters of the firm's resources. I will assert presently that the language and presentation of their demands draw on these symbolic framing resources to appeal to potential allies among the managers or workers.

B. Explicit Contracts vs. Implicit Assurances

The riots in Daqing Oilfield and Liaoyang Petrochemicals in March 2002—involving 30,000–50,000 protesters over a period of over a month—may have constituted the biggest and longest sustained autonomous labor movement in post-'49 China. What appeared to be at stake were implicit supports that the enterprise might or might not have offered the ex-workers, but which they certainly expected. Retired workers accused the Daqing oil bureau of reneging on an earlier promise to pay their heating bills, and of demanding that they make new large annual payments to remain covered by the company's medical and old-age insurance schemes.[34]

Most significantly, some employed Daqing workers joined the protest demonstration two weeks later, after their mandatory contributions to their pension plans were tripled. Eric Eckholm of *The New York Times* reported that workers felt "cheated and misled" by managers who warned them of imminent corporate bankruptcy and the likelihood of massive layoffs with little or no compensation. Facing such prospects, more than 50,000 workers took severance offers of up to 4,000 RMB per each year of service in December 2000.[35] Since then, these ex-workers had not found new employment, and the buyout sums began to look precarious in face of their lack of job prospects. The expressed viewpoints of workers and the public statement from the management show a discrepancy unaccountable by the formal, explicit terms of the contract:

> "We've discovered that there's a big difference between what we were promised and what we've been given," said Ms. Liu, who spoke nervously after receiving a phone call from a reporter. "The managers were very persuasive and convinced us this was the best deal we could get."
>
> The party-run union at the oil fields denied responsibility for the welfare of the protesters. "These people have terminated their contracts in return for a lump sum," said an official who did not give his name. "They are no longer employees of the oil field and they are no longer members of the trade union."
>
> -- Erik Eckholm, *NYT*, 3/19/02

Two dynamics of mobilization deserve highlighting. First, ex-workers frame protests around violated socialist norms at least partly in order to appeal to those workers precariously holding on to their jobs. This framing blurs the line between the current employees and ex-employees, by drawing the latter's attention to the managers' lack of credibility and the violation of the basic social contractual principle guaranteeing their future employment. By placing anxieties and pressures on managers and ex-colleagues in the firm, protestors aim to contend with and blur the new organizational boundary of the firm and blur the battlelines between privileged insiders (or fence-sitters) and outsiders.

Second, the concrete claims made by workers were grounded in *both* explicit and implicit contractual terms. The labor termination contracts that were shown to me did not contain guarantees for continual provision of utilities, and they did contain clauses denying further medical coverage. If we don't take the implicit claims seriously, then one can hardly understand why workers could have any persuasion given that they did voluntarily sign legally binding documents, collect the full amount of severance fees, and do not legally deserve to have free heating or job offers for themselves, much less for their children. Even more importantly, and unlike the peasants defending moral economic prices that the community as a whole acknowledged, ex-workers have no specific and collectively determined alternative yardstick as to what the "best offer" by enterprises should have been.

The above stories reveal considerable complexity in the politicization of class relations in response to SOE reform.[36] We observe cleavages among workers of different status under the former socialist employment regime, and of different times and conditions of exit from the "iron rice bowl;" in short, the composition and motivations of the activist "working class" are far from homogenous.[37] Applying Charles Tilly's (1978) typology of collective claims—competitive, reactive, and proactive—the above patterns of mobilization would seem to overlap these claims. For example, while framed in the language of their former rights and privileges under socialism (reactive), the workers advanced claims in direct response to new institutions that made the use of state-owned resources competitive between the last and present generations of laid-off workers, and between the core and noncore parts. One can even argue that the workers' claim is proactive since their job losses represent the direct outcomes of the central state's new demand on profits.[38] This interpretation is contrary to the conventional view of workers' protests as essentially reactive.

More generally, I would argue that neo-traditional ties have translated into short-term bargaining chips in different ways for workers kept on by the factory and those released by it. For those remaining, paradoxically, social capital and patron-client ties from the *danwei* might matter even more as they continue to bargain with sympathetic managers to secure a relatively better exit path. However, many of the most capable and well-connected workers left the work unit voluntarily—either they received superior employment offers elsewhere, or they cashed in their social capital to obtain bank loans or government credit for financing their own businesses or introductions to new employment opportunities. They also appear to be able to negotiate relatively secure chances of returning to the enterprise when and if the "market opportunities" failed. In short, I am suggesting that—as the restructuring of SOEs has produced different streams of workers—Hirschman's (1971) classic exit, loyalty, and voice options should be examined systematically for differences in the workers' cause of discontent, attitude toward socialist or market norms, and active or passive noncompliant behaviors. These differences in turn derive in part from their former and present positions in the work force and the prospect for negotiating settlements that protect at least some worker interests.

V. FRAGMENTATION OF THE MANAGERIAL CLASS AS A RESULT OF ENTERPRISE RESTRUCTURING

One would have expected workforce reduction measures to generate discontent among the laid-off workers, yet I found a much broader scope of dissatisfaction. The central reality is that the managerial class is as divided as the workers. Managers of several oilfields and refineries and Beijing bureaucrats have voiced a common concern that the resistance to the new formal institutions would not fall along any neat "class lines," such as the division between manager and workers. Instead, SOE employees will identify their fate and take common actions in response to structural tensions between the core and noncore part. Typically, both the managers and workers of the noncore part felt that they have been assigned to a dismal future, and their counterparts in the core-listed business were at fault for exploiting their weaker position. For instance, the following event took place in Chongqing in 2001:

> Two managers, who had shared the same work unit and rank for many years, were assigned separate fates with restructuring. During a heated quarrel over the thorny issues of restructuring, the manager of the core-listed company haughtily said to his counterpart at the noncore-unlisted Oil & Gas Bureau: "You are truly impotent (*meiyong*)! Why do you continue to have so many problems?" The latter lost his cool, retorting that his "problems" were no more than the historical legacy of socialism—for which both managers must share the blame—compounded by the new

> contractual relations which institutionalized the core part's exploitation of the noncore. A fistfight ensued during which the defender of the Bureau's reputation scratched the face of his privileged ex-colleague "to a bloody mess." At the same time, outside their office building, out in the famed fertile gas fields of Sichuan, noncore workers mounted malicious attacks on the personnel and equipment of the core company, waging an ongoing campaign of silent non-cooperation and outright sabotage.[39]

Managers secure in their positions often expressed criticisms of the corporate headquarters' specific instructions for layoffs, and even cynicism toward the efficiency of these measures. Managers of both core and noncore parts harbored mixed feelings toward the central state's action to strip them of the autonomy and incentives they had enjoyed under the era of decentralization in the 1980s and 1990s. Predictably, regional and inter-firm *variations* in these adverse manifestations reflect differences in the "can-do" spirit in the past era of greater managerial autonomy, such as success in independently pursuing enterprise reform and taking advantage of local market opportunities. A reversal of managerial autonomy has led to *within-firm* passive compliance and a lack of motivation for innovation, and polarization of the managerial class *within* firm and *across* similarly situated firms in the industry. Furthermore, increasing brain-drain among mid-level technocratic managers may lead to rising conservatism and politicization of the remaining, arguably less capable or mobile managers. Given these patterns of institutional, incentive-structural, and sociological cleavages, one can readily predict significant managerial inclination to side with disgruntled workers.

A. Attitude Toward Beijing's Centralized Corporate Governance

In oilfields with a history of autonomy but which made little headway in local institutional innovation, managers are characterized by a passive resentment toward obeying central orders and ready acceptance of financial control from the corporate headquarters in Beijing. For them, there is very little difference between centralized governance under the socialist plan and under the Western corporate form.

In the late 1990s, top managers in Daqing had unsuccessfully spearheaded an alternative proposal for restructuring and listing it in domestic and international stock markets, based on its clear superiority among all oilfields in efficiency and economy of scale. Having been thwarted in their ambitions by cautious politicians and bureaucrats in Beijing, a high-level official of Daqing expressed the feeling of subordination: "It's true that the factory manager feels like a floor supervisor or foreman, lacking in autonomy or room for initiatives … [this situation has created] visible inefficiency, but there's nothing we can do under the centralized system."

Powerful constraints have kept the Xinjiang Oil Bureau (XJOB) in Karamay from experimenting with enterprise reform. The Oil Bureau is expected to maintain social stability in a hinterland region scarred by ethnic tensions between the Han settlers and the Uyghurs, while extracting oil and gas in a vast territory that nurtures no other industry.[40] XJOB had implemented a "clean restructuring" in faithfully observing the guidelines in assigning assets to core and noncore businesses.[41] Specifically, it created a listed part that guaranteed an efficiency standard of "one person producing 1,000 tons of oil." Since the managers had put all their chips on the table, they found themselves with little margin for independent maneuver against the financial department of the corporate headquarters. Consequently, they exhibited passive compliance. A top financial officer of the listed company curtly explained his reduced motivation since restructuring:

> Look, I am just a henchman for PetroChina. I do what I am asked to do, no more, no less. I have no reason to be creative, to take entrepreneurial risks, to be concerned about the implications of WTO, etc. As long as my oil could be sold domestically, I need not waste time thinking about a vision or plan. Since our profitability is unrelated to the enterprise's future [the headquarters take all the profit], and since those mxxxxxxxxxxx have promised but not given me a real wage increase, I have to say that I am highly unmotivated. Compared to the old contract responsibility system, under which the oilfield was operated as a profit center, the current system benefits Beijing at our expense. The Oil Bureau and the local economy are screwed, but what do I care? I am in the listed part ...

In SOEs with some early successes in local institutional experimentation, managers saw the 1998–2000 top-down restructuring as an "ambush" or "preemptive strike" on their equally valid initiatives. They tend to feel strong resentment toward Beijing's low opinion of their efficacy as revealed by the top-down approach to restructuring. Consequently, they acquire a fatalistic sense of the futility of individual actions that taints their future willingness to take risks and explore local initiatives.

Zhongyuan Oilfield had served as a role model of institutional innovation when it belonged to the upstream company CNPC. In the mid-1990s, managers of Zhongyuan had experimented with an original reform framework of "internal marketization (*neibu shichanghua*)" that aimed to promote efficiency gains by allowing for some degree of competition among similar units within the company.[42] For these local innovators, the 1999–2000 restructuring has eradicated any efficiency and competitive gains from this earlier system of internal markets. They called Beijing's reform a "regression (*houtui*)."

For the two major oilfields—Shengli in Shandong and Zhongyuan in Henan—under the ownership of Sinopec, which is predominantly a refining and petrochemical company, local managers perceived a "cultural gap" between them and their superiors at the corporate headquarters. They expressed concerns that Beijing lacked an appreciation of the long-term economic horizon for operating oilfields, and undermined the most sensible method of production and investment by enforcing strict short-term financial targets. A Zhongyuan manager criticized the Sinopec headquarters as rigidly adhering to "an automation line (*chejian*) mentality."[43] He described that mentality as believing in predictable input-output targets based on the self-contained production lines. As a result, Sinopec tends to micro-manage through specific cost targets.

A manager of Shengli Oilfield, Sinopec's primary upstream asset and cash cow, echoed his colleague's view. He saw the Beijing managers as exhibiting a narrow-mindedness reflecting their predominant background in petrochemical production. In contrast, "upstream operations have special needs … we need greater flexibility in cost control and labor mobility, applied over expansive organizational boundaries, not the 'fenced-in' nature of a refinery!" For him, it has been "hard to communicate" the oilfield's needs to the corporate headquarters. Responding to Beijing's financial control, for example the complete access to the enterprise's bank accounts and manipulation of contractual agreements, another manager complained: "This is too tight of a leash, detrimental to the kind of flexibility that is necessary to deal with externalities or unexpected side-effects."

B. Disparate Corporate Cultures within the Oil Corporation

A handful of oil and petrochemical enterprises have been spared from the complex and contentious relations emerging from restructuring, due largely to the presence of one or more of the following beneficial conditions: 1) recent establishment in the past five years; 2) location in a dynamic metropolitan area that provides a market for its goods and exit opportunities for its workers; 3) recent history of profitability and a fat reserve of retained profit; 4) early restructuring and introduction of effective corporate governance. In the Sinopec system, such fortunate enterprises include the new refineries in Fujian and Ningbo, rejuvenated petrochemical plants in Nanjing, and, above all, Shanghai Petrochemicals, that meets the last three criteria.[44]

Shanghai Petrochemicals (SPC) has been the domestic leader in efficiency, market-savvy, and institutional innovation, representing the crown jewel in Sinopec's downstream assets. In a frank discussion with me, a senior manager of SPC showed little sympathy for the troubles of his counterparts in other refineries in implementing restructuring. Being a classic Southern cosmopolitan gentleman, he stopped just short of characterizing them as crybabies. Instead, he attributed their loss of autonomy to a history of failing to be innovative in following international best practices, adopting institutional reforms based on Western corporate structures, investing in the "software" of human resources, technical know-how, and brand name, and using central funding wisely. To be fair, many of these less successful refineries were erected in no-man's land and carried local socioeconomic weight greater than that of SPC for Shanghai. But in the final analysis, he argued that "autonomy should be earned, not given administratively." He explained:

> Why, during restructuring, SPC managers didn't care to be 'promoted' to Beijing. Top Sinopec officials acknowledge that they are often less authoritative, knowledgeable, or innovative than managers of SPC. Thus they tend to defer to our suggestions, even adopt them as a general model for application to other plants. At the same time, Sinopec officials are cocky and imposing toward less well-run units. Furthermore, while Sinopec exercises a line of control over SPC similar to control over other subsidiaries, it has allowed SPC much greater latitude in its action. For example, projects of less than 50 million RMB in capitalization are easily,

> one could even say 'deferentially,' approved by Sinopec. In particular with R&D projects, where the strong financial backbone of SPC really comes to the fore, we dictate our own spending … something other refineries can't even begin to match.

When I mentioned a few top managers I had encountered elsewhere, whose Herculean efforts to salvage their enterprises had impressed me, the SPC manager dismissed them out of hand: "These people, they won't even qualify for a middle-level management position in my company." This same spirit of superiority, institutionalized by the core-noncore division and increasing wage differentiation, is responsible for the physical violence managers inflicted upon each other in Sichuan. This "aristocratic mentality" has also lent itself to prevalent acceptance of bribery or kickbacks, indulgence in vices, and feasts as a behavioral extension of the celebration of the revenue power of the core-listed company in other oilfields and refineries. At a time when the central policy calls for close collaboration among subsidiaries in the national oil companies, one can easily imagine how the actual corporate culture of discrimination could be quite subversive.

Overall, and in contrast Ching Kwan Lee's image of the all-powerful-manager, the esprit de corps of the new managerial incentive system has been stifling rather than stimulating, as the rigorous top-down financial control has tended to snuff out managers' fledgling sense of self-efficacy and entrepreneurialism nurtured by the previous contract responsibility system. A veteran oilfield manager arrived at a most revealing conclusion: "It feels like we are back to the first Five-Year Plan, or more accurately [in his estimation], the Brezhnev era in the Soviet Union!"

VI. CONCLUSION

This essay has taken the premise that pro-market or efficiency-driven enterprise reform is a state-building project, and success or failure in legitimating this project produces variations in workers' activism. Workers' attitudes and actions are not deducible from material circumstances of the enterprise and individual abilities, but reflect the history of the enterprise's expansion and recruitment strategies, as well as more proximate reform legacies of variations in the terms of termination contracts.

Workers also draw on neo-traditional ties and other personal resources such as networks for coping with change, suggesting that while a worker's record of political performance might have lost some of its utility as a buffer against policy shocks or as an informal redistributive mechanism within the work unit, it may have taken on new importance as a selection mechanism for discharging workers and endowing some with the initial exit capital.

I have provided illustrations of complex modes of resistance within and outside of the firm, and across the managers and workers. The older laid-off workers may first send out their wives to protest on their behalf, but then they might go out on streets themselves when their ex-colleagues in the factory decide to join in. Inactions and actions both need to be considered, not as compartmentalized and exclusive behavioral patterns, but in relation to one another as strategic options. I have also argued for keeping in view at all times the managers' divided allegiances, which have been largely absent from conventional studies. This view allows me to account for cross-class mobilization within and outside the bounded entity of SOE. In light of Beijing's interest in creating profitable firms out of the ashes of socialist work units, our analysis needs to be sensitive to the strategies and counter strategies through which the small minority could be co-opted to help the state hold at bay the large majority which faces a dismal future and has serious potential for disruption. While despotic factory regimes akin to Polanyi's "Satanic Mills" of industrializing England may accurately characterize sweatshops at Guangzhou, it is too simplistic of an image for generalization, pitching workers against a cohesive collective of cadres and managers. In fact, workplace politics show a range of strategic interactive outcomes of managers and workers against the state, state and workers against managers, factionalism within the managerial class or among state agencies, and even workers oppressing other workers.

Comparative perspective might suggest that the mobilization of Chinese *xiagang* workers would likely lead nowhere. Piven and Cloward (1979) argue that poor people organize and disrupt mainly when they see possibility for mass organization that could compel elected officials to react to their grievances. Chinese workers cannot expect the same, particularly since managers and local cadres who traditionally played the surrogate role of elected officials have precious little resource and policy autonomy to provide an alternative to the restructuring schemes demanded by Beijing. Furthermore, if working-class identity takes form only after the bursts of defiance have subsided but the political opposition has risen in their place, what chances do Chinese workers have for securing a foothold in future policy debates? In the case of the People's Republic of China, where marketization has not been accompanied by regime change, the party-state continues to serve *simultaneously* as the exclusive advocate of workers, the superego of managers, and the regulator and owner of productive assets nominally under its name. The monopolization of formal institutions by the party-state results in informal dynamics that take on complex functions of collective representation, conflict mediation, and resistance.

However, authoritarian institutional reform is costly, as workers' inactions and actions have created net revenue and welfare losses. Mindful of these losses, the state might eventually move toward giving managers and workers more autonomy and control over the terms of their work and exit from their firms. In this sense, it would be analogous to Beijing's urgent advocacy of expanding village elections as a release-valve for pent-up peasant discontent under a heavily extractive agricultural regime.

In conclusion, by documenting the politicization of production relations in Chinese firms, I challenge the uncritical assumption that supposes any local resistance to efficiency-oriented reforms is inherently anti-market. I believe that over time the experience of the fragmentation of the working class will provide a lesson on the local limits of authoritarian institutional innovation, rather than one on the progressive market vs. an obsolescing moral economy.

APPENDIX

Table 1

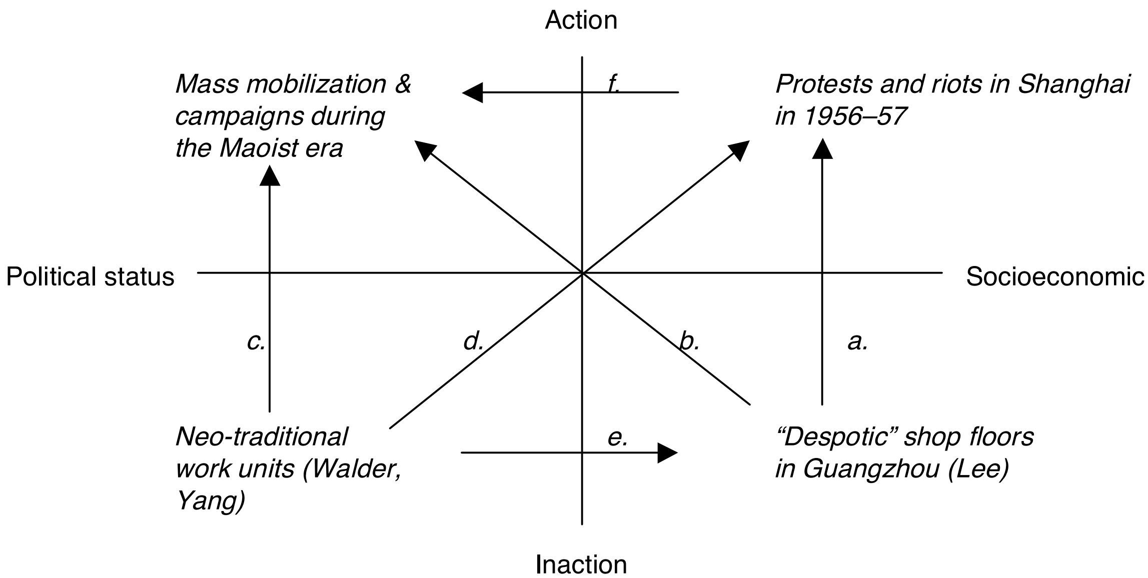
Fieldwork and Case Selection

Name of Subsidiary	**Province (Geography)**	**Production Profile**	**Interview Subjects**
Daqing Oilfield and Petrochemicals, CNPC	Heilongjiang (NE)	Crude oil, refined oil products and petrochemicals	All major divisions Mayor's office Office of the high-tech development zone Executives of "spin-off" companies
Shengli Oilfield, Sinopec	Shandong (NE)	Crude oil, some refining	All major divisions City of Dongying
Shandong Oil Bureau, Sinopec	Shandong (NE)	Refined oil products, petrochemicals, wholesale and retail distribution	Senior financial officer of Shandong province SETC/SDPC cadres Executives of "spin-off" companies
WEPEC, independent	Liaoning (NE)	Refined oil products and petrochemicals	Senior managers
Liaoyang Petchem, CNPC	Liaoning (NE)	Refined oil products and petrochemicals	All major divisions Party-Secretary and Mayor's office
Zhongyuan Oilfield, Sinopec	Henan (Central)	Crude oil, some refining	All major divisions City officials
Luoyang Petchem, Sinopec	Henan (Central)	Refined oil products and petrochemicals	All major divisions City officials Executives of "spin-off" companies
Shanghai Petchem, Sinopec	Shanghai (SE)	Commodity and specialized petrochemicals	Senior executives
Lutianhua Petchem, independent	Sichuan (SW)	Chemical fertilizer	All major divisions City officials
Karamay Oilfield, CNPC	Xinjiang (W)	Crude oil	All major divisions Executives of "spin-off" companies
Dushangzi and Urumqi Petchem, CNPC	Xinjiang (W)	Refined oil products	Junior managers
CNOOC	Offshore (NE/SE)	Crude oil	Former senior officials

Note: "All major divisions" refers to interviews from at least seven of the following corporate offices: 1) CEO/President, 2) finance, 3) labor and human resources, 4) planning, 5) asset management, 6) enterprise reform, 7) exploration and development teams (*duiwu*), 8) refinery and petrochemical units (*chechang*), 9) marketing and distribution, 10) geology, and 11) neighborhood governance and social services, etc. For interviews with Offices 1–6, I interviewed counterparts at the *core-listed* and *noncore-unlisted* parts whenever possible.

Table 2

Working-Class Fragmentation and Collective Actions



Y-axis = collective behavior, X-axis = types of cleavage

Examples of dynamic strategic shifts of workers:

a. Sabotage or work stoppage based on role-based controls over specific assets.
b. Lineage and place-of-origin ties leading to political allegiances, c.f. Perry and Li (1997).
c. Regulated political mobilization through activist networks.
d. Activists joining protests with the unspoken agenda of alerting their patrons of their shifting allegiance.
e. Ex-activists conforming to material incentives.
f. Protesters driven by economic concerns co-opted into political movements.

Table 3

Major Organizational Characteristics of Subsidiaries of NOCs

Organizational characteristics	**Core-listed ("oil companies")**	**Noncore-unlisted ("oil bureaus")**
Asset profile	¾ of total profitable assets	¼ of total profitable assets
Labor cost profile	¼ of total labor force	¾ of total labor force
Market orientation	National or international	Local
Organizational goal	Profitability and cost reduction	Stability and restructuring
Sources of revenue	Production and sales; dividends	Contractual earnings for services to the listed part; government transfers
Financial principles	Production units as cost centers; simplified, transparent, centralized accounting	Former administrative units as profit centers with legal-person status; independent accounting
Principal-agent relations	State-asset holding company as the dominant shareholder of the listed company; other shareholders including foreign investors do not control decisions	State-asset holding company as the sole shareholder of the noncore part; some cases of employee shareholding
Role of price signals	"Price-takers" of state-administered prices	Set by contract with listed part
Organizational form	Highly centralized M-Form	Centralized M-Form

Source: Author's summary from China Natural Gas and Petroleum Corporation (CNPC), *Zhongguo shiyou gongye guanli tizhi gaige yanjiu* [A Study of the Reform of the Governance Structure of the Chinese Oil Industry]. Beijing, CNPC, 1998.

Table 4

Samples Figures of Financial Outlays for Workforce Reduction 2000–02

Workforce Reduction as Financial Burdens on SOEs	**Numerical reduction, as of 2002**	**Pecuniary terms of discharge**	**Net explicit cost, as of 2002**
Daqing Oilfield, CNPC (core and noncore)	60,000, from 270,000	4,500 RMB per year employed for core layoffs; average of 100,000 RMB per ex-worker	4 billion RMB
Zhongyuan Oilfield, Sinopec (noncore)	16,000, from 50,000	3,000–4,000 RMB per year employed	4 billion RMB
Luoyang Petrochemicals, Sinopec (noncore)	1,800, from 5,000	3,080 RMB per year employed, average of 240,000 RMB per ex-worker	432 million RMB

ENDNOTES

1 I wish to thank Daniel Buck, Glenn Dudbridge, Rachel Murphy, Vivienne Shue, Eddy U, and other participants at the China Research Seminar of the Institute for Chinese Studies at the University of Oxford, February 5, 2004, who gave me helpful feedback on the latest formulation of ideas for this paper. An earlier version of this paper benefited from comments and encouragements from Richard Baum, Kenneth Foster, Mary Gallagher, Thomas Gold, William Hurst, Xin Liu, and Jaeyoun Won, among others at the 2003 Annual Symposium in Chinese Studies, "The Question of Violence," March 7–8, 2003, Berkeley, CA. I would also like to thank numerous colleagues at the Helen Kellogg Institute for International Studies for their support and input into my research project on comparative economic restructuring in Latin America and China.

2 See "Symposium: Poor People's Movement" in *Perspectives on Politics* 1(4), December 2003.

3 Lee's explanation of the ascendancy of the despotic regime is functionalist, correlating to the increased demand on managerial capacity to enforce wage differentiation, punitive work rules, massive layoffs, and related property rights redistribution such housing reform. Lee (1998).

4 For further examples, see Chan (2001) and Solinger (2001).

5 Yang sees managers as more inclined to promote top-down statist social policies than the bottom-up corporate interests of the workers. For example, the bonus system has become a point of contention—the state acts to bind managers whom they suspect as prone to chronically overpay workers, while workers don't appreciate the tight budget under which the managers operate and feel that the sideline activities contributing to their bonuses were hardly worth the managers' diverted attention from the core issues of firm survival. Yang also notes that dependency relations, as long as they were confined to the cellular structures of the SOE, produced weak impetus to civil society formation. However, she leaves open the possibility that successful implementation of external shareholding and internal wage differentiation might undermine working class solidarity (Yang 1989: 59).

6 Ruan's analysis of large-N survey data from Tianjin showed that high level of social provision by an enterprise tended to enrich the interpersonal relations of its employees, and contributed to their status in the "discussion networks" that related them to superiors and Party members (Ruan 1993: 102).

7 O'Brien (2003) also see Wilson (1990) on trade unions' role in labor movements in the 1980s.

8 She states that "… due to their different material circumstances, the new inequalities among workers in the reform era have brought about divergence experiences and different degrees of consent" (Lee 1998: 25).

9 Walder (1992). Adopting a path-dependent perspective, Solinger identifies a "proclivity to favour the better endowed" enterprises in unemployment insurance programs (Solinger 2003: 19).

10 For a classic analysis of resource dependency, see Pfeffer and Salancik (1982).

11 Looking at the entire period of strict CCP (Chinese Communist Party) urban controls from late 1950s to the 1980s, Davis (2000) observed that the periodic loosening of *hukou* and *danwei* restrictions by officials keen to meet economic objectives had the effects of altering career trajectories for middle-level managers.

12 Yang (1989) also finds a mix of political status and socioeconomic markers dividing workers in her printing factories, particularly along the lines of "young and old … leaders and led … [and] skilled and unskilled …" (57). Unlike Perry and me, she sees these divisions as weakening worker solidarity.

13 Lee (1998), Zhou (1993). Examples of inactions include work stoppage, egalitarian wage redistribution, absenteeism and diversion of labor to sideline activities, and abuse of housing

privileges, which may be analogous to the "weapons of the weak" (Scott 1985) deployed by peasants.

[14] See Table 1 in Appendix for a complete list of fieldwork locations.

[15] See Table 3 in Appendix for details on the highly unequal distribution of assets and personnel for core and noncore parts.

[16] For example, units responsible for the extraction of crude oil, transport units, and retail stations were incorporated into the core parts, whereas exploration teams, geology institutes, and social services lacked obvious profit potentials and were placed in the noncore parts.

[17] The Labor Law of 1997 delivered the legal go-ahead for the broader statist agenda to shed its social responsibilities toward workers. See Gallagher and Jiang (2002).

[18] From my observations in twelve oilfields and refineries, this ratio of ten Chinese workers to every worker in a similarly scaled but efficient foreign production unit is fairly uniform across Sinopec and CNPC operations—keeping in mind, and this is far from a trivial consideration, that labor cost in China is significantly lower. A Chinese worker's monthly wage is only about 1,000 RMB or about US$125. In fact, many managers expressed their skepticism at Beijing's and foreign investors' preoccupation with layoffs as the most expedient way to cut costs, arguing that labor expenditure constitutes only a minor part of the overall cost structure.

[19] In general, the core-listed company has faced fewer complications and less pressure in labor reduction. For one thing, upon restructuring it gained a fairly "lean" labor profile, which is supported by the concentration in its hands of the most profitable resources. Anticipating this unequal outcome, the President of Daqing Oilfield, Mr. Su Shulin, tried to get as many workers into the listed part as possible; in the end 1/3 or around 90,000 out of 270,000 employees were placed in the core-listed company, or about 10,000 more than PetroChina initially desired. Subsequently, layoffs in the core part have been relatively insignificant in number and importance to cost control.

[20] The entire Sinopec Corporation retained 319 teams.

[21] For example, for its second largest oilfield, Zhongyuan, Sinopec had established a target for the workforce of the noncore part of 28,000 workers by the year 2005, down from 47,000 at the end of 2001.

[22] The Sinopec corporate headquarters appeared relatively reluctant to help the noncore part shoulder the financial burden of various labor contract buyout schemes.

[23] If the number of *xiagang* workers were counted toward the national unemployment rate in China, it would up the rate by another 5% or so. (Interview with a SDPC staff person, Beijing, May 2002.)

[24] The terms for this deal were slight more generous than the industrial average—Luoyang Petrochemicals paid a rate of two-and-half months of current salary, or around 3,080 RMB, per year employed.

[25] Specifically, Zhongyuan had 9,744 *maiduan* labor contracts and 6,733 *neitui* workers. In my estimation, the total expenditure might actually be higher for political reasons. The provincial government of Henan has been keen on cushioning the socially disruptive effects of layoffs, compelling the oilfield to ensure that over 9,000 ex-workers continued to get pensions, medical care, living-standard subsidies, etc. Of these workers, 3,000 had found new jobs as of mid-2002.

[26] For some estimates of local and central contributions, see Solinger (2003: 17). My interview with an officer of the Ministry of Labor and Social Security revealed that, after delegating to the provinces the task of amassing funds for a social security net for unemployed and retiring workers, the central state found itself with only 20–30% of the expected pensions obligations in 2001. (Interview in Beijing, June 2001.) Local states were either unable or unwilling to collect contributions from SOEs under their jurisdiction, forcing the central state to devise an alternative plan of raising part of the funds by taking 10% of all new public offerings starting in 2002.

(Statements by Deputy Minister of Finance Lou Jiwei at the NBER-CCER Conference, Beijing, June 22, 2001.)

[27] I am unaware of any study that looks into this sociological layering of state-owned enterprises, and regrettably I am not able to contribute to addressing this lacuna as I did not gain access to comprehensive records of the workers' initial terms of employment and subsequent revisions or updates.

[28] As of 2001, the noncore Shengli Oil Bureau had 234,000 workers, of which 195,000 were formal workers with formal labor contracts with the oil bureau and the rest were "collective" (*jiti*) workers who signed temporary contracts with local employment or labor agencies. The compensation for temporary workers was channeled through the Labor Affairs Fund (*laowufei*), bypassing the formal wage bill. *Laowufei* has no upper limit on expenditure, being a quasi-enterprise, quasi-governmental body—an example of X. L. Ding's "institutional amphibiousness" (1994).

[29] It might seem surprising that the earlier, more voluntary generation of laid-off workers would feel relatively deprived; however, it makes sense when one considers the following differences between the earlier generation and the current one: 1) their exits were voluntary, 2) those who chose to exit were often the less able or no longer able, 3) the scale of *xiagang* was far smaller, 4) the SOE typically continued to provide non-pecuniary subsidies. I am inclined to believe that given the coercive, severe, and widespread nature of recent workforce reduction, national politicians and top managers of the oil corporations felt that a nominally higher compensation may be necessary to avoid overwhelming resistance.

[30] Interview in Beijing, May 2002.

[31] Interviews of managers at Daqing, Shengli, Xinjiang, Zhongyuan, 2001–2002.

[32] See Lei (forthcoming) on the changing cadre ideology. A good indicator of the ex-workers' cynicism is the commonplace accusation of corruption directed at local cadres and SOE managers. During the Liaoyang protests, ex-workers accused cadres and managers of pocketing the money intended for their welfare fund. (Eva Cheng for *Green Left Weekly*, April 24, 2002.)

[33] Lee identified three categories of variations in workers' attitude—"socialism betrayed," "socialism transformed," and "socialism liberated"—with the invocation of socialist norms and angry insistence that managers and officials should adhere to them most prevalent among workers with little recourse against being laid off (Lee 1998: 15).

[34] Eva Cheng for *Green Left Weekly*, April 24, 2002.

[35] Ex-workers admitted that these sums seemed large at the time and were higher than the national norm in such situations. (Erik Eckholm, *NYT*, 3/19/02.)

[36] Local governments have grown accustomed to mild everyday protests. (Interview in Beijing, May 2002.)

[37] This observation dovetails past findings of Elizabeth Perry (1993) and Andrew Walder (1986).

[38] For a review of recent treatment of this topic in the rural context, see Kevin O'Brien, "Collective Action in the Chinese Countryside." *The China Journal*, Vol. 48, July 2002.

[39] Interview at the Xinjiang Oil Bureau, Karamay, Xinjiang. May 2001.

[40] One manager disclosed the three cardinal informal principles in the ordering of his incentive structure: 1) particularistic interest trumps the overall national or corporate interest; 2) the stability of production comes before the development of new resources; and 3) social order cannot be compromised by enterprise reform. As recorded in his career dossier, the oil bureau chief loses "points" whenever a riot or protest or other social unrest involving ethnic issues occurs in his jurisdiction!

[41] Other oilfield bureaus (i.e., Daqing, Zhongyuan) exploited the information asymmetry to harbor some valuable assets, such as 500,000–1,000,000 tons of oil production in their noncore

parts. A manager of XJOB regretted lacking the foresight or wile to devise this "insurance policy." Top managers of XJOB also thought that Karamay Oilfield would become a profit center after the restructuring, with sufficient financial autonomy to conduct some capital movements to keep things afloat for the noncore part. Instead, like Shengli Oilfield in Shandong, XJOB was turned into a cost center.

[42] The idea was to break down overly self-sufficient units (e.g., exploration teams owning a fleet of cars) by re-aggregating assets along functional lines (cars, technical services, purchasing, marketing, etc.). These functional companies gained equal status under the Oil Bureau, and were encouraged to compete against each other for internal contracts. Some of these functional units had undergone mergers and acquisitions, cutting the number of second-tier units by half! Each unit was compelled to conduct feasibility studies and independently lobby the oil bureau for contracts, which actually generated significant waste of resources.

[43] In direct contrast, CNPC, being a company traditionally based on oilfield assets, prefers governance via broad-targets and managerial autonomy.

[44] Interview at Shanghai, June 2002.

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