Comments from Christian Schneider

According to 2003 estimates, China has a labor force of 780 million people. Annually, in additional 10 million enter the labor market. To absorb this number, the Chinese economy needs to grow by at least 7% per year. Since 1994, China has a rather modern and comprehensive labor law. This law applies to all work-units: state-owned, collective, and foreign-invested. Among other things, the law covers workers rights, including the rights to select an occupation and obtain employment, receive remuneration for work done, rest and vacation, and receive vocational training, health insurance and welfare benefits.

- Trade unions. The law also gives workers the right to be represented by trade unions. However, only one state-sanctioned union, the All-China Federation of Trade Unions (ACFTU), is permitted.

- Labor Contracts. Under the law, workers are entitled to written labor contracts that must include clauses covering all terms and conditions of employment, including remuneration, labor discipline, probation periods, dismissal rules, etc. The law further states that employers are responsible for health, safety, and insurance at the workplace.

We learned on our trip, however, that the many million migrant workers, some of whom we observed during various factory visits, are not protected by the law and do not enjoy any interest representation through the union. There pay is too low and their working and living conditions are deplorable.

I had the pleasure of meeting Ms. You AiLin, a former labor/employment affairs specialist with the labor ministry of Guangdong Province, during the Pearl River Cruise on January 11. In the course of our discussion, I learned the following: While Chinese labor is very comprehensive, adherence to its various provisions is a major problem. Companies from Japan, Taiwan, and South Korea have the worst reputation concerning non-compliance with the law and for exploiting workers. The best reputation in terms of compliance and treatment of workers is attached to companies from France and Germany, followed by Scandinavian and US firms.

Another very serious problem is the non-payment of wages, particularly in the textile and construction sectors. Last year, several riots broke out over non-payment of wages.

The new, i.e. fourth, generation of Chinese leaders is aware of the explosive nature of this and other social issues such as the lack of old-age pension insurance for some 80% of the country's rural population and the growing migration from rural to urban areas. With a view to preventing major social unrest, China's leadership announced last year a complete revision of the social-security system to complement the ongoing efforts to restructure the economy and streamline the state-owned sector.

Above all, China's government must do something about bringing the unprotected migrant workers with the fold of labor and social security laws. In my opinion, China can only achieve sustainable economic success through a policy of workforce inclusiveness and workforce skilling. Given the huge population, this make take several years, however, it is a process that has to commence sooner rather than later. After all, as Michael Enright mentioned in his presentation, "over the next 10 years, some 500 million people have to come off the farm."
The HR group was under the esteemed direction of Christian. My minor contribution to the group report focused on personnel selection issues. The issue the group found most salient was the weak state of the meritocracy in China.

In a meritocracy, people move into jobs based on merit. A meritocracy tends to emerge when barriers to achievement, such as sex and race discrimination, are minimized. Meritocracy also emerges when work-relevant environmental factors become more equal for all citizens. Work-relevant environmental factors include education and nutrition. In the United States, mandatory public education until age 16, free public education through high school, school nutritional programs for the poor students, food stamps, and other safety net programs tend to make residents of the US more equal in opportunity than residents in China. Meritocracies become efficient as employers improve their hiring procedures. In China, we visited manufacturing companies and a bank. In the United States, manufacturing companies typically screen job applicants using professionally-developed cognitive (e.g., reading, math, reasoning) and mechanical comprehension (e.g., mechanical principles, how machines work) tests. Banking organizations test for customer service and cognitive skills. None of this seemed to be happening in China and thus represents a business opportunity.

Note that I am not arguing that the US is free of discrimination and other barriers but I do argue that it is generally moving in that direction.

Please note that meritocracies are not fun for those at the bottom. As environments become more equal, the sources of the individual differences that cause some to be at the bottom of the meritocracy become more difficult to remediate. For example, women, on average, have less mechanical comprehension and spatial ability than men. Men, on average, have less verbal ability and perceptual speed than women. Blacks, on average, have less cognitive ability than whites. Some cognitive skills decay sharply with age. These differences are unpleasant and often large, and none are easy to remediate through environmental interventions. Thus an efficient meritocracy is going to show differentiation by demographic factors that are socially undesirable.

I also commented on the IQ differences between China and other areas. The mean IQ in China is 103, 98 for the United States, and 100 for most of Western Europe. Whereas IQ is one of the best predictors of job performance, this may prove to be a competitive advantage for China.

I also commented on the similarities between state-run enterprises in China and the US military. Both organizations have a large pool of individuals who must be assigned to a variety of jobs. This is a classification problem and there is limited scientific knowledge on methods for doing this efficiently.