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THE ECONOMIC PERFORMANCE AND THE HUMAN RESOURCES STRATEGIC COMPETITIVENESS FACTOR OF CHINA AND INDONESIA

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Abstract: There are two main different economic strands of tough dealing with development strategy. One is the outward oriented development strategy, represented by classical and neo classical comparative advantage economic theory. This believes exchange between countries and believes that trade can bring benefits to each trading partner. Thus, exchange lead to economic growth. In contrast, the inwards oriented development strand, represented by dependency economic theories, believes that trade between advanced and developing countries will bring the developing country into a position of dependency.

Key words: competitiveness theory, economic theory

INTRODUCTION

The most efficient and effective way for a third world country to develop has always been a controversial issue for scholars, theorists, politicians and other parties interested in current affairs. The issue is whether government take an outward-oriented or an inward-oriented economic strategic toward development. For over a decade, a well-known international financial situations such as World Bank have been urging developing countries to adopt open economic policies (World Development Report, 1987; World Bank Policy Research Bulettin, 1993) and it has appeared that outward-oriented economic strategies were the only course to the welfare and development.

However, organizations enhancing globalization such as World Economic Forum (WEF) have stimulated varying levels of protest at their annual meetings and the protess have on occasion turned violent (Australian, 2000). The participants in these protest came from a broad variety of backgrounds. They included industrial workers, environmental activists, students, feminists, academics, anarchists, socialists and trade union members. They put forwards slogans against free trade and against capitalism. At the WEF in Melbourne for example, the social backgrounds of the 800 delegates were varied as those of the protesters. There were representatives of governments from both developed and developing countries, entrepreneurs, economists, bankers, scholars, and writers. It may be asked whether they agreed on the impact of free trade and globalization on present day economies.

In fact, the opinions of delegate towards the current trend towards free trade and globalization could generally be classified into three main groups. Some delegates were in favor of free trade. These delegates believed that free trade was essential to the welfare and economic growth,

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especially for the development of third world countries. The Australian Prime Minister, Mr John Howard, For instance, Stated that globalization was a "ticket to prosperity for poor countries". However, "many developing countires were shut out of the opportunity to trade their way to economic growth and better labour consitions because trade barriers imposed by rich countries to agriculture and other exports such as textiles, clothing and footwear, from poor countries (The Age, 2000). Bill Gates, the co-founder of Microsoft Inc., Said that "if world trade is blocked the big losers will be the poor people of the world". However, some delegates held contrary opinions towards free trade. One such was Dr. Vandana Shiva, director of the Indian Research Foundation for Science, Technology and Ecology. She believed that free trade was a fallacy. The Indonesian Trade Minister, Luhut Pandjaitan, was of a similar opinion. He said that free trade did not necessarily bring growth, and that liberalization of trade could show the economic development of a country (The Age, 2000).

From this moment, it would appear that a greater number of delegates, including the Chinese Minister of Trade, were advocating free trade, although some of them preferred gradual economic opening policies. However, it cannot be concluded that an outward-oriented economic is better that an inward-economic policy, simply because there was a gretar support for liberalization of trade that the World Economic Forum meeting in Melbourne. One reason for this statement is that some of more powerful and nationalist leaders, such as Lee Kwan Yew of Singapore and Mahathir Mohammad of Malaysia, had not been invited to the forum. The relative competitiveness of China and Indonesia were selected on for the following reasons, both China and Indonesia are developing countries, with rich assets of labour and high 'disguised unemployment', but shortages of capital. Thus, it would be necessary for them to compete with each other in order to attract foreign investment and expand their exports, in accordance with comparative advantage. Cost is consistently an essential issue in the running of business or in planning for an investment, regardless of the industry in which the investor is interested. However, labour remains an outstanding cost in the labour-intensive industries which accounts for the major part of the foreign investment in China and Indonesia. China and Indonesia are geographically close to Australia, and they are situated in a region in which, the economy is developing rapidly, while the Australian industry faces a period of changing structures. The labour-intensive industries in Australia suffer the disadvantages of high-labour costs. According to comparative advantages theory, all countries in the region would be advantaged if each them could specialize in the production of goods in which they had an abundance of factors.

There are a few main problems that are needed to be answered in this thesis. The first main problem is what the economic performance of China and Indonesia especially in textile, clothing, and footwear industries. The second main problem is what the Human Resources strategic competitiveness factor of China and Indonesia especially in textile, clothing and footwear. The most important reason for the choice of the relative competitiveness of China and Indonesia is that no publication has appeared comparing the competitiveness of China and Indonesia as regards their labour costs. In order to accomplish this task, I went to Shanghai, Beijing, Guangdong in China at the end of 2006 and succeeded in interviewing workers and owners in TCF industries in different countries of China. This thesis will discuss the effectiveness of open door policies on the economic performance of China and Indonesia. The delegate of China was one of the most optimistic in relation open door policies, while the representative of Indonesia appeared doubtful toward free trade. This thesis will also discuss the following issues.

COMPETITIVENESS THEORY

Traditionally, a nation's international competitiveness has been explained by international trade theories originating from Adam Smith. However, today's global economy is too complicated to be explained by the traditional trade theories. Recently, Michael Porter of the Harvard Business School introduced a new competitiveness theory, the so-called diamond model. He differentiated his theory from the traditional trade theories by arguing that national prosperity is not inherited, but created by choices; in other words, national wealth is not set by factor endowments, but created by strategic choices. He showed different choices of creating wealth, which had been quite limited in the world of traditional trade theories. His diamond model has lately been extended by several scholars.

THE COMPARATIVE ADVANTAGE ECONOMIC THEORY

The comparative advantage economic theory is an extension of the absolute advantage economic theory. The latter was first pronounced by Adam Smith in 1776. In his "An Inquiry into the Nature and Causes of the Wealth of Nations", Adam Smith, in responding to the then general mercantilism recognized that exchange can bring benefits to both sides of a trade, when each sides possessed different skills. Both countries can obtain benefit from the export of those products in which they have an absolute advantage. This can be rephrased as, absolute advantage theory means that both trading partners can profit if they import goods which are more expensive to produce, and export goods which are cheaper to produce, in comparison with their trading. partners.

Furthermore, as Smith said in the "Wealth of Nations", *international trade stimulates the* division of labour, and thus enhance the level of productivity of a nation. In the same book his "vent for surplus theory" also showed that export demand would lead to the utilization of previously idle capacity of production.

Later, in 1817, David Ricardo showed, in his "Principles of Political Economy and Taxation", that both sides in a trading relationship could profit if each country was able to specialize in producing goods in which they had a comparative cost advantage. This was fully expressed in the well known "four magic numbers", representing the amounts of labour needed to produce wine and cloth in each country (Ricardo, 1951). People produce what the society wants or other people want to pay for, because self interest encourages them to do so. At a higher level, all units (producers, consumers, and workers) of the society in which producers maximize their profits, workers maximize their wages, landlords maximize their rents and consumers buy goods and services at their lowest prices, are blended together and form a social harmony and this harmony can only be reached under freedom of competition and the law of substitution (Smith, 1776). David Ricardo considered the question of international trade from the position of 'opportunity

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cost'. Opportunity cost, according to the International Encyclopedia of Economics, is the value of the second best product that must be sacrificed in order to have a bigger amount of the preferred product. This virtually means that all countries have a basis on which to trade. Both Adam Smith's absolute advantage and David Ricardo's comparative advantage have their limitations. They are both based on the amount of labour used in the production, and the difference on labour involved in the production.

The new integrated theory also studied the determinants of each individual firm's choice to be national or transnational, and where to locate headquarters activities and plant production. This. aggregate combination of national and transnational corporations is also referred to as the sector regime. TNC headquarters services in the differentiated sector, the finished differentiated goods and the homogeneous goods are assumed to be, respectively, capital intensive, of intermediate capital intensity, and labour intensive. Furthermore, Krugman also stated that the comparative advantage of a country is dynamic. A country can lose its comparative advantage over time following the life cycle of products they produce. The product of firm of that country can enjoy a temporary monopoly position and access to overseas markets. This special endowment can last as long as there is an -imitation lag" in importing countries. As all products have a life cycle, firms situated in the initial importing country could imitate and produced identical products at a lower cost. In turn, if the later firms catch up with the product cycle, they will export the identical product to third countries. Over time, as it develops. A country tends to proceed up a ladder of comparative advantage. A country tend to proceed from initially exporting resource intensive commodities, such as sugar or rubber, to unskilled labour intensive commodities such as textiles, clothing and footwear to semi –skilled labour intensive items, such as electronics; to capital- intensive machines, and to financial and knowledge-intensive products. The advanced factors that dominate the upper rung of the ladder must be upgraded and created over time through massive investment in human and physical capital (Krugman, 1980).

In essence, according to neo-classical economists, imports could be beneficial to a country. The exposure to the competition coming from the international trade would stimulate growth, because it encourages the efficient allocation of resources and introduces innovation; thus the importing country could learn from the abroad. Export would expand demand encourage full employment of resources, and provide foreign currency to pay for the imports, which in turn would enhance consumption and facilitate technological progress. Some economists suggested that export could be regards as an "engine of growth". In addition, foreign direct investment has backward and forward, and spin-off effects on the recipient country. Now only did it create jobs and increase employment, but it also brought in foreign currency, new technological know how and management skill as well. The recipient countries would develop through the 'catch-up' process. The rate of economic growth of developing countries would depend on the extent of adoption and implementation of new technologies that were in use in developed countries.

However, for neo-classical economic theory, maximization of profits was still the core of the formation of the present day TNCs (Transnational Companies). TNCs continuously pursued regional and global strategies, and integrated their production structures on a regional and global basis, in order to pursue profit maximization. However, the law of competition continued to apply. The TNCs had not only to compete among themselves through price and quantity, but also through production configuration. The TNCs had to choose to be national or transnational, taking into consideration their competitors behavior. Their choices of the location of their sectors were determined by cost factors (Krugman, 1980).

In turn, the maximization of profits seeking investment strategies would create incentives for developing countries to compete among themselves, and further loosen their FDI policies. As a consequence, this provided TNCs with an ever-increasing choice of locations. Thus, according to comparative advantage economic theory, China and Indonesia should have an advantage in manufacturing and exporting labour intensive manufactured products, such as TCF (Non- Fibre Agreement on Textiles, Clothing, and Footwear). As a consequence, they must compete with each other to attract more foreign investment. Through trade, they should proceed up the ladder of development.

THE DEPENDENCY ECONOMIC THEORY

As distinct from the comparative advantage economic theories supported by classical and neoclassical economists, some economists, especially economists from Latin America, believed that trade, and especially international trade between developed and developing countries, was not necessary beneficial for both trading partners. These economists are Marxists and Neo-Marxists, such as Andre Gunder Frank, the Brazilian economists Fernando Cardoso and Enzo Falleto (1979), and the economist Samir Amin (1976) and other writers such as Arghiri Emmanual (1972) etc from Egypt.

In the years prior to the world depression of the 1930s, the Latin American countries embraced Adam Smith's free trade economic policies, and believed in Ricardo's development through specialization. They concentrated on exporting primary products to European countries. As a consequences, during the economic depression and world war period, their economies suffered a serious setback as demand for their primary products from Europe fell, as did national income and economic growth.

According to dependency theory, the international division of labour and system of trade did not, as neoclassical economists claim, have advantages for all participants. Instead, international trade made poor countries poorer, and rich countries richer. The world was divided into two parts: the central European countries, and peripheral non-European countries. Peripheral countries exported cheap, agricultural products and imported expensive industrial products. This biased way of trading favored the higher cost of product of the centre and victimized the lower cost product exporter, the periphery.

Regarding foreign investment, Dependency Theory stated that multinational companies not only divided the world into two groups of countries, but that they polarized all sectors within a country. The Dependency Theory economists also argued that, even if the late developing countries were industrializing through foreign investment, they were no longer pure primary resources exporting countries. The advanced capitalist countries were still the main beneficiaries, either in trade or in investment. They possessed the technology, monopolized the research and the development, and they were the homes of the multinational companies.

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Furthermore, foreign companies polarized the local society by creating a dual economy the advanced industrial sector and the backward agricultural sector. In countries such as Argentina, Brazil, Mexico, South Africa, and India, for instance, investments by multinationals fragmented internal social structure of these countries. The most `advanced' parts of their economies connected to the international capitalist system. Separate, although subordinate to these advanced sectors, the backward economic and social sectors formed the 'internal colonies' in the dependent countries (Peet and Hartwick, 1999). These dependency economic theories were very much influenced by Marxist economic theory. After the industrial revolution, economic and social condition in Western Europe, especially in England, excited great criticism. One of the most influential critics was Karl Marx. Contrary to the laissez faire market economic theory advocated by Adam Smith, David Ricardo and their followers, Karl Marx and his believers proposed a completely opposed economic theory, State-controlled social economic theory. As noted in previous paragraph, classical and neo-classical economists advocated freedom of competition. Under freedom of competition, all units of the society would perform to their greatest within their restriction, and thus the country would develop in a harmonious way (Preston, 1996). Thus, in capitalist society, the working class-the workers and capital owners the capitalists were living in a state of constant conflict. The source of the conflict was exploitation. The exploitation arose because there was a difference between the wages given to workers and the market prices of goods the workers produced. This difference, or profit, was referred to by the Marxists as the surplus value. This surplus value was what the capitalists appropriated from the workers. Thus, each commodity produced was the "congelation of forces locked in combat, not in cooperation".

In capitalist society, capitalists competed among themselves. Internally, they exploited the working class be lengthening working hours and introducing labour saving technology. With the surplus value that workers created, they succeeded in accumulating more capital. Externally, in order to acquire bigger markets and more natural resources for their production, they expanded their territories throughout Latin America, Africa and Asia. They were the imperialists. They collaborated with local elites to develop the cheap labour of these areas. Thus, there could be no compromise between the oppressors, the capitalist, and the oppressed, the working class. There was no common interest between the imperialist- the dominant- and the colonies- the dominated. The Marxists believed that world trade between developed and developing countries would humiliate the economic conditions of the developing countries, and drew them into dependency. Moreover, commodities, capital and labour were unequal, and combined to transfer resources from dependent countries to dominant countries in the international system (Meier, 1984). The idea of the dependency of under-developed countries on developed countries through international trade can also be found in structuralism economists and scholars from Western countries, such as Gunnar Myrdal, apart from these economists coming from third world countries.

RESEARCH METHOD

This research consists of data qualitative and quantitative data. It will be described such as a past history of economic performance of China and Indonesia, table showing the chart of economic performance including both countries, labor cost of Indonesia and China will be essential in this thesis. In the meantime, data will be having a character of quantitative such as the wages pays, the level of export and import, etc. The operational variables is independent variables which is the analysis factors affecting the competitiveness of GuanDong, China and Java, Indonesia in textile, clothing, and footwear industries (X).

In this research, the using of primary and secondary data research will be used in order to support the need of research. Furthermore, there are some data in the internet that have been used in this thesis. Both secondary data and internet are essential in processing making this thesis. The primary sources is from the interviewed which was being held to Indonesian and China workers. It also involves some of the General Manager of the manufactures in GuandDong, China and also in Jave, Indonesia. Both qualitative and quantitative data needed to write this thesis was gathered mostly from the use of secondary resources such as text books, internet, and newspaper. In collaboration with the secondary data obtained, a first degree data was needed to provide the data validation. Such resource collected through interview with workers who work for the applicable companies. Various different apparatus was used in the data collection processes through indirect observation or documentation which data collection through the use of medium (e.g. Literature, internet). In addition, the writer also have a priority access into the textile industry that is both in China and Indonesia, this was gained as a result of direct interaction with General Manager in both countries. Thus, bona fide data were used in preparation of this thesis. All of the data input will be analyzed based on the operational variables and framework.

Data result from the direct interview as primary data with one of the personnel in the company will be collaborated with secondary data of company archives. Then processing as accordingly to appropriate reference or theories which have been wearied by all experts in seeing the problem of this research. Data Collected will be analyzed based on descriptive analytical method which will be interpreted and concluded by the author or surveyor.

RESULTS AND DISCUSSION

The Economic of Indonesia-China

Two contradictory economic theories were raised in the previous chapter. The comparative advantage economic theory advocates free trade, because by finding more broad markets, it is possible to employ the idle factors of production existing in the local market. Under the law of free competition, in order to survive, people will improve their productive power, and thereby raise their real revenue, and thus the total wealth of the society. The dependency theory, free trade can only benefit the developed countries because imperialists appropriate the surplus value from the colonies, and they generally collaborate with the local elites to develop the working class. Free trade can only victimize the developing countries. The path to development for a poor country is to avoid world trade; the poor country can then re-invest the surplus value that the local people have created. The plan of this chapter is as follows: 1) The general trends in the economic performance of China and Indonesia from the 1950s to the 1990s will be examined. Apart from GDP, GDP per capita and major economic structural changes, life expectancy, infant mortality, population per

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physician and population per nurse will also be discussed, as economic growth is not synonymous with economic development by scholars outside the field of economics studies.

2) The second section of this chapter will consider the opening economic policies and economic performance of the two countries in detail, in two separate periods of time from the 1970s to the 1980s, and from the 1980s to the 1990s. 3) The third section of the chapter will consider the negative aspects of economic growth, which are most commonly ignored by advocates of neo-classical economies theories, and over-emphasized by advocates of dependency economic theories and social institutions. 4) The fourth section of the chapter will discuss unemployment and under-employment in China and Indonesia, which became important issues for both governments and acted as an internal momentum to the opening up of the two countries. This leads on to the final section of the chapter, which discusses the export performance of the textile, clothing, and footwear industries of China and Indonesia.

As distinct from the economic circumstances experiences by Latin America countries the comparative advantage economic theory seems applicable to China and Indonesia. Both countries have encouraged exports. They, among other developing countries in the region, competed to attract foreign investors. They opened up their territories and lowered investment rules and barriers, granting concessions on taxes on profits to foreign investors. As a consequence, their exports escalated from the mid-1980s. While they experienced strong economic growth, joining the world economic mainstream is an essential, but not the only condition for economic growth, as I noted in discussing the Indonesian economy during the 1970s and early 1980s. The GSP of China and Indonesia rose, but the share of agriculture in GDP fell, and that of industry occupied more important positions. The same applied to the populations of the two countries, as more people participated in the secondary and tertiary sectors than ever before, during the 1980s. The growth of GDP per capita in China and Indonesia also outperformed that in other countries of the region, such as India and Burma, which opened up later in time. Thus, the economies of both China and Indonesia were better performed in the post-economic reform period than in the period when more closed economic policies were adopted or autarchic economic policies were embraced. However, signs of exploitation by FDI existed, and were sometimes alarming, arousing social and international institutional criticism. I believe that the open door economic policies facilitated foreign investment and exports, which, in turn, attracted scarce foreign exchange, new technology, and modern management skills. These formed a driving force. Once this driving force encountered the existing, but long idle (and suppressed for political reasons.

Human Resources Strategic of Guandong, China and Java, Indonesia

The previous chapter examined competition between China and Indonesia in attracting FDI and exports of labour intensive TCF manufactured products to the USA and Japan. China's performance in attracting FDI and exports of labour intensive manufacturing products was better than that of Indonesia not necessarily because China is more competitive than Indonesia, because China is rich in cotton China's success in exporting textile and clothing products might be due to its access to cheap raw materials. Thus, the relative attractiveness of China and Indonesia to FDI enterprises is likely also to be profoundly affected by local wage levels. This chapter will investigate the core of the issue: what made China more competitive in exporting labour intensive manufacturing exporting products and in attracting FDI enterprise.

Labour cost is an important item which contributes to the competitiveness of labour intensive manufactured products. As with many developing important an impoant advantage of China and Indonesia was their low cost labour, which was a major factor in attracting foreign investment. This chapter will discuss the labour costs of China and Indonesia. I will also answer the suggest whether China or Indonesia can provide lower labour costs, and establish the labour costs of the two countries in the labour-intensive industries: textiles, clothing and footwear. In order to find the answers to these questions, I conducted field research in Guangdong, China, at the end of 1996, and in August 1999, I did a second round of field research in Guangdong, China, again in order to update the information collected in the previous research, and detect changes if there were any. In both trips, I successfully conducted interviews with four employers, three managers, one supervisor, and three workers in textiles, clothing, and footwear industries. They covered Guangzhou, Shenzhen, Dongguan, Panyu, and Jiangmen in Guangdong province. This chapter is the result of this research. Labour costs by definition cover take home wages, overtime pay, holidays pay and other fring benefits. They also include other expenses such as training costs, and recruitment and termination costs. The attitude of trade unions and the labour laws also have an effect on the relations between workers and employers. If employers and employees take a cooperative approach in the workplace, these costs may be lower. Otherwise, sabotage, industrial action or strikes may occur, which will inflate labour costs. I chose Guangdong province as representative for China, and Java for Indonesia, to compare their labour cost, because both have been the biggest FDI recipients of the two nations. Guangdong has been the largest recipient of FDI since China opened up to FDI, and has received more than half of the total foreign investment; although the percentage has declined, it has remained at a quarter of the total amount, even in 1998. A similar situation existed in Indonesia, where Java was the biggest recipient of foreign investment. Unlike Guangdong province in China, Java's position has never been challenged by other provinces. Although the figures were not the actual figures for foreign investment, they still prove the dominant position of Java in receiving foreign investment in Indonesia .For China, the biggest investor was Hong Kong. It accounted for between 61% and 76% between 1990 and 1996. The survey found different factors that influenced the decisions of firms, including: Abundant supply of labour and a cheap labour force, Cheap rent and ease of acquiring land, Geographic proximity to Hong Kong and ease of management, etc.mEight hundred out of 887 firms investigated gave priority to the supply of labour and a cheap labour force. This suggests that cheap labour is a priority factor that influences decision-making for investors. (Hong Kong trade and development council, 1997). This survey suggests that low labour costs are an important factor in attracting foreign investors. Although this research is mainly based on Hong Kong companies, I believe it would be generally applicable to foreign investors in labour industries in Indonesia, as the two countries are quite geographically close to each other. Before making a detailed examination of the labour costs associated with industrial workers in Guangdong and Java, the meaning of labour costs needs to be clarified. Labour costs generally cover 'take home pay', before tax, such as wages for time worked, which covers time rates, piece rates, shift penalties, overtime payments, and bonuses, etc. Apart from take home pay, total labour cost includes all social charges.

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The latter can be summarized as follows: pay for time not worked, such as annual leave and public holidays, cost of vocational training, cost of welfare services, employers' social security expenses such as pensions, sickness, insurance for injuries at work,~ unemployment family allowance (Bean, 1994). This will be discussed in more detail in the following sections.

The take home pay is the payment received by the employees. The expenses for wages and salaries paid by the employers may be higher if taxes are taken in to consideration. The wages of workers in Guangdong have experienced significant change in the last few decades. After the opening policy from 1978 to 1997, the wages of workers in the industrial sector in China increased by more than ten-fold (see table 13). Most of this increase occurred between 1991 and 1997. Wages rose almost three times in ten years from 1980 to 1990. However, there was another 159% increase in the seven years from 1991 to 1997. During the same period, there was a 140% pay rise for workers employed in State-owned enterprises (SOEs) and around a 130% rise for workers employed in collective enterprises. Workers employed in private enterprise, including foreign direct investment (FDI) companies, enjoyed a rise of also around 130%, but the already had the highest wages – 39% higher than those of workers in SOEs, and nearly 103% higher than those of workers employed in collective enterprises. There is an unwritten rule that wages for employees working in FDI enterprises must be 20% higher on average than those of their counterparts working in other enterprises. The reason is that workers employed in FDI enterprises do not have other subsidies and benefits enjoyed by employees of SOEs and collective enterprises, such as housing subsidies and retirement funds. The above shows only the wage changes of workers in general. However, after the adoption of the open economic policy, there was a dramatic structural change in wage payments in China. That was the wage reform. The first sign of wage reform appeared on the 5th January 1985, with the 'Notice on Reform of Wages and Salaries in State Owned Enterprises' issued by the Chinese State Council. This notice stated that pay rises would be linked to the profitability of the enterprise. Pay increments for individual workers would be closely related to their performance at work. This was a sign that the Chinese government had decided to abolish the socialist ideal of 'equality'. However, the reform took shape only with the issue of the 'Notice of the Establishment of the Committee for the Reform of the Distribution System' by the Work Bureau of the Chinese State Council on 13th September 1991. this was chaired by Vice Premier Zhou Jiahua. This reform, however, was only applied thoroughly in January 1992, with the joint announcement of the Production Section of the Labour Department of the State Council, the Personnel Department of the National System Reform Committee, and the All-China federation of Trade Unions (ACFTU) on 'Deepening the Reform of personnel Management, Wagesm Salaries, and the Insurance System' (ZGGZFGQS, 1996). In fact, wages of all Chinese workers were divided in to eight grades. Wages were adjusted according to the length of service of the recipient, rather than skill, qualifications or contribution to the work. The other factor which affected wages was the area where the recipient lived. The whole of China was divided into eleven wage areas, based on the price of necessities in the local area, and its geographic environment. Guangdong province belongs to the fourth wage area: Beijing and Shanghai are situated in the sixth wage area. As a consequence, after the pay adjustment in 1991, the difference between the highest and lowest wages was no more than four times. Last wage increase previously had occurred in August 1983. The average increment per person was RMB3.5. Thus, there were only two pay rises in eight years, apart from a few adjustments to subsidies on account of the increasing cost of food, housing, and other necessities of life. This type of pay rise provides a vivid picture of how workers were 'eating from a big pot' before the wage reform. There was no difference between the hard workers and the lazy ones. Pay rises and competition were the two most widely used means of motivation in western personnel management (Strauss and Sayles 1980, p27-40), but in China, pay rises had lost their incentive effect, while competition had disappeared completely in the workshop. In addition, the ideas of productivity and efficiency were alien to management. This was one of the reasons why two thirds of SOEs were running at a loss. Thus wage reform became necessary. Reflected the situation of the market economy. It is possible to go deeper in the industrial sector, and look more closely at the income of workers employed in the TCF industries in Guangdong; the annual average wage for non-skilled, skilled, and management staff in textiles was RMB7, 386 in 1997; wages for workers in the garment sector were RMB 7,803, while wages for leather and related products workers were RMB8, 320. These average daily wages comprised income for workers employed in firms with different forms of ownership. They might be State-owned, collective-owned or privately owned. The latter included joint ventures, and subsidiaries wholly owned by foreign companies.

In order to assess the real situation of workers and foreign direct investment firms in China, I conducted field research in Guangdong province in late 1996, and again in August 1999. The interviewees comprised workers, supervisors, managers, and factory-owners in textiles, clothing, and footwear industries in four cities, Shenzhen, Dongguan, Panyu, and Jiangmen, and the municipal city, Guangzhou, in Guangdong province. For the purpose of protecting the privacy of the interviewees, no interviewee will be identified by name. To maintain consistency, in 1991 attempted to interview the same interviewees as 1996. Unfortunately, because of the change of the personnel and the 1997 Asian economic crisis, one owner had retired and one owner had declared bankruptcy and disappeared, However, on my second visit, I emphasized "change in wages in the last two years" of respondents were being interviewed for the first time. Wages of workers varied according to the supply of and demand for the workforce. The wages of non-skilled workers remained basically stagnant from 1997-1999 in Guangdong because of Asian crisis. The total earnings for non-skilled workers in clothing factory Nol in Shenzhen the numbering is based on the order of the interviews for the purpose of anonymity, similarly in the following paragraphs) were around RMB690 per month in 1999, which included RMB 320 of basic wage, RMB 220 of living subsidies, and RMB 150 of meal subsidies. The earnings could reach RMB 1000 with overtime pay. When the question, "Do you have difficulties in recruitment workers since the pat has not changed in the last two years?" was raised with manager Mr. A in Shenzhen, the answer was "No worries, we are not worried about it because there is plenty of supply out there. " Wages at clothing factory No.2 in Panyu were similar. In general, there were no changes in wages for non-skilled workers from 1997 to 1999. At the interview, team leader Miss B said, "I don't know why, plenty of people are queuing up out there for a job. If I lose one worker today, I shall have another to fill the vacancy tomorrow." This suggests the invisible hand advocated by classical and neo-classical economists has affected China's labour market, since China joined the mainstream of world markets.

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CONCLUSION

To sum up, wages in TCF industries in Guangdong in China are lower than in Java in Indonesia, particularly since the devaluation of the RMB in 1994. The depreciation of the Rupiah in 1997 eased the wage differential between the two countries, but it was not able to change the general situation. The wages for Chinese textile, garment and footworker workers were only 86%, 88% and 94% respectively of their counterparts in Indonesia in 1993, and dropped to around 64%, 72% and 57% respectively in 1994. They rose to 77%, 82% and 69% in 1996 and 78%, 68% and 94% respectively in 1997. This supported by the international publication 'World Competitiveness Yearbook 1997', in which Chinese labour cost was ranked 2, and the Indonesian was ranked 5. The lower wages of workers explained the growth of labour-intensive manufactures in China, the exports of TCF products to the US and Jaoan, and the attractives for foreign investment of labour-intensive industries in China, although wages are only one part of labour costs.

In the meantime, the annoual minimum wage in Guangdong was in 1994, although, as in Indonesia, its enforcement depends greatly on the economic situation and the pressure from trade unions and other outside forces such as NGOs. However, in general, in the minimum wage in Guangdong 5% to 20% lower than the minimum wage in Java.

Another important issue worth considering when discussing labour cost is productivity. According to the World Competitiveness Yearbook 1997, productivity in China is slightly higher than that in Indonesia. Productivity in China was ranked 38th, while that in Indonesia was ranked 43 d . However, the research showed that Indonesian workers in TCF exhibited much better performance than their counterparts in China. The productivity of foreign direct investment, collectively owned, and also States owned enterprises. The performance of the latter is normally lower. The performance deteriorated further in 1994. The productivity of the TCF industries in China was only 37,16%, 48,22% and 38,88% that of the same industries in Indonesia, because of the devaluation of he RMB in 1994. It was around two-thirds to three quarters that of Indonesian fot the remaining years of the study.

The maximum penalty rate for overtme work in China is 300% of the normal wage, while in Indonesia it was 400%, so the cost for overtime work in China is Slighty lower than in Indonesia. If the number of public holidays is taken into consideration, the cost of overtime could be much higher in Indonesia, because there are only seven days holidays in China, while apart from the seven public holidays and twelve days of annual leave, there is also menstrual leave for female workers in Indonesia. Thus, in general, the fringe benefits for workers in Indonesia must be higher tan those in China. However, in practice, as I observed in my reseach, overtime pay does not exist for workers paid by piecework and the lengh of work hours is quite flexible.

However, one more important factor influencing the labour cost that must be borne in mind is that, whenever the value of currentcy is involved in a comparison, the outcome is very much influenced by the exchange rate of that currency at the time of the comparison. This is an issue which cannot be ignored, particularly by a potential investor in these two countries. For instance, the devaluation of the Rupiah in 1997 made the labour cost in Indonesia much lower than that in

China, although oter factors for investment must be taken into consideration.

Rules on recruitment and termination procedures in China are much more complicated and time-consuming than those in Indonesia. This increases the labour cost in Guangdong, and makes it more expensive than the labour cost in Indonesia, although the complexity of recruitments decreases if the hired staff are local people and skilled or semi-skilled workers. While the sismissal of workers is not encouraged in China, it becomes nearly impossible in Indonesia. In this case, he dismissal cost in higher in Java than in Guangdong.

Rules imposed on occupational health and safety are normally very loose in China and Indonesia. The looseness of rules on the working environment lowers the labour cost. However the poor working conditions may also create problems with workers' health problems and morale, and possibly lead to sabotage, which in turn raises the labour cost to investors. The same applies to training: to provide on-the-jo training could raise the labour cost, but it could also improve the work skills of employees, lower the rate of rejection, and thus raise productivity.

The trade unions of both China and Indonesia are tightly controlled by government, as also are industrial relations, although incidents of industrial action are increasing. The dispute resolution process in China can be biased against the employer, because the union is more influential in the resolution of disputes, while in Indonesia, the government representative has the final say. The role of transmission belt limits the freedom of movement of Chinese trade unions and puts them directly under the Chinese government's control, and thus industrial action will e subsumed in the then government policies towards foreign direct investment.

The theme of this thesis is to investigate the factors affecting the competitiveness of Guangdong (China) and Java (Indonesia) in the labour-intensive, textile, clothing and footwear industries. Industrialisation has generally been considered the necessary first stage in the development process, and to broad textiles industry has typically been the entry-level stage of industrialization. (This, of course, begs the question of the desirability of development, but that is outside the scope of this thesis). Thus, before proceeding to consider the textiles, clothing and footwear industries in particular, it is useful to survey the question of how industry grew in China and Indonesia in the period under consideration.

To live a better life has always been and remains an everlasting pursuit of mankind, and the most efficient and effective way to develop for developing countries is a longstanding topic of research. It appears that both comparative advantage economic theories, which lead to inward-oriented economic strategies, have their place, because their effectiveness can be demonstrated at particular periods of time and in particular places.

For the period from the 1970s to the 1990s in China and Indonesia, the symptoms described by the dependency economists still existed. Local workers were severely exploited. The disparity in earnings between workers employed by FDI and local manufactures grew. However, FDI enterprises brought capital and jobs, which eased the pressure of unemployment on the Chinese and Indonesian governments. As noted in Chapter Three, a worker interviewed for my field

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research preferred working in FDI factories with stable incomes and shelter, to working on the land.

Both China and Indonesia are third word countries with abundant reserves of labour. As was suggested, comparative advantage economic theories that advocate policies of operating were better for developing countries in the twentieth century. However such policies brought China and Indonesia into confrontation with each other in exporting and in attracting foreign investment. Thus labour costs become an essential factor that affects the competitiveness of the two countries.

Labour costs consist of factors such as wages paid to workers, worker productivity, fringe benefits such as overtime pay, holiday pay and superannuation, and so on. Recruitment and termination costs and industrial relations overheads are also factors that must be taken into consideration.

In fact, it cannot be said that labour in Guangdong or labour in Java is cheaper than the other overall factors of labour costs. Generally speaking, wages are heaper in Guangdong, but productivity is higher in Java. Recruitment costs are higher in Guangdong, but termination costs are higher in Java. Trade unions in China are still tightly controlled by the government in China, while the unions in Indonesia are becoming more independent and thus strikes and other industrial action may become more common, leading to higher labour costs.

Of course, apart from labour costs, two other related issues that FDI enterprises must consider are the political and legal system and the stability of the society.

In order to attract more foreign direct investment, I suggest that both governments should focus on producing a more friendly investment environment for foreign investors. Issues that governments in both countries should pay attention to are: 1) Lowering investment costs by developing cadres of clean and honest public servants. Corruption and bribery increase business operation costs; 2) Building up fair and transparent legal systems which can balance the welfare of workers and profitability of investors, and hopefully attain prosperity for both parties; 3) Increasing worker skills by providing more training opportunities and courses at prices affordable to workers, in order to upgrade their working skills, and thus their ability to fulfill work requirements, and increase labour productivity; 4) Other labour related issues that should receive the attention of governments in both countries, for reasons of basic humanity and regardless of their impact on FDI, are: 1) Collective bargaining is an effective means to protect workers' rights in third world countries, as due to their ignorance, workers are easily exploited by greedy employers. All industrial agreements should be in writing and should be written in plain, common language and should be easily enforceable; 2) Industrial health and safety issues have been seriously neglected in both countries, and should receive attention. Improvements in worker skills will be vitiated if the turnover in workers remains excessive due to work-related injury and health concerns. The final decision on industrial disputes must rest with the governments, which must reach their conclusions from considerations of the national interest rather than of sectional interests. Some arease that would merit further research are the role of the Overseas Chinese in the development of the textiles, clothing and footwear industries in China and Indonesia in the period under construction, and their experience of the relative competitiveness of each country in these industries; subsequent developments in the comparison between real wages in textiles, clothing and footwear industries in China and Indonesia, and follow-up interviews to test respondents' views of developments since 1997, and similar questions to a broader sample in China, and similar interviews in Indonesia.

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