An Emerging Labour Market Player:

The evolving role of employment agencies in Japan and China

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Abstract

This thesis is a comparative study of labour market institutions and actors in Japan and China. It focuses particularly on an increasingly influential, yet little-studied labour market actor: for-profit employment agencies. Fieldwork conducted in both countries reveals the development and influence of employment agencies. By combining the views of historical institutionalism, actor-centred institutionalism, and compressed development, this thesis traces the co-evolution of employment policies, employment practices, and employment agencies. Key findings are the following:

(1) Overall, Japanese and Chinese employment agencies followed surprisingly a similar timing and pattern of evolution, although changes have been more drastic and uneven in China than in Japan.
(2) The motivation to promote flexible employment was more aligned among labour market actors in China than in Japan, which accelerated labour market change.
(3) Employment agencies have been most active in providing 'non-regular' workers in 'external' labour markets, but in the past decade, they have become involved in core corporate strategies (i.e. 'internal' labour markets), more significantly in China than in Japan.
(4) The growing policy influence of employment agencies is shown by their constant re-interpretation and evasion of regulations, which has prompted various reactive policy changes in both countries.

Comparison of such co-evolution and influence in the two countries will reveal historical, geopolitical, and socioeconomic contexts that contribute to the change and continuity of labour market institutions and actors, and identify factors that contribute to unequal labour market outcomes and precarious employment.

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Contents

List of Figures vi
List of Tables vii

Chapter One: Introduction **1**

Growth of inequality, 'non-standard' employment, and employment agencies 1
Previous studies on employment agencies 3
Definition and categorization of employment agencies and labour markets 4
Significance of comparing Japan and China: *The rise and fall of 'standard' employment* 7
Clarification of employment types and quotation rules 12
Outline of Thesis 14
Expected contributions 18

Chapter Two: Research framework **19**

Theoretical framework 19
Institutions and institutionalism 19
Actor-centred institutionalism 21
Historical institutionalism 23
Combining two institutional theories 26
Compressed development 29

Methodology and Methods 30
Research question and sub-questions 30
Epistemological and ontological considerations: critical realism 30
Research strategy: qualitative, retroductive approach 31
Research design: comparative, multiple-case study 32
Comparison of fieldwork experiences:
Stereotypical 'salaryman' in Japan, varieties of managers in China 36
Conclusion 39

Chapter Three: Interaction among employment agencies and relevant actors **40**

Landscape: *Japan as late-developer, China as compressed developer* 41

'Interaction-oriented' analysis on employment agencies 45
'Triangular' interaction among agencies, workers, and employers 45
'Triangular' interaction among agencies, business associations, and government 54
'Triangular' interaction among agencies, universities, and employers 60
Interaction among employment agencies 63
Interaction with other relevant actors 65

Conclusion 69

Chapter Four: Evolution of employment agencies in Japan **70**

Phase 1: Exploratory growth of agencies within restricted environments (~mid 1990s) 70
Continuity of worker-employer 'matchmaking' practices 71
Limited growth of for-profit job intermediary agencies 72
Birth of for-profit dispatching agencies 72
Birth of job advertising agencies 75

Phase 2: Agency boom along with deregulation (mid 1990s – 2000s) 77
Digitalization of job advertising services 78
Legalisation of for-profit job intermediary services 80
Emergence of on-the-premise subcontracting services in manufacturing 83
Boom and crash of labour dispatching services 85
Rise of precarious workers along with changing regulations and needs 87

Phase 3: Rebalancing deregulation and workers' protection (2010~) 90
Re-regulation of employment agencies and 'non-standard' employment 90
Cultivation of new worker groups 92
Combination and diversification of existing services 94
Expansion attempts beyond existing markets 96

Conclusion and potential transition to Phase 4 97

Chapter Five: Evolution of employment agencies in China **99**

Phase 1: Exploratory growth of agencies within restricted environments (~mid 1990s) 99
Continuity of flexible employment: the planned economy era (1949-1978) 99
Incremental changes of early labour market reforms (1978 – mid-1990s) 100
Birth of employment agencies for foreign services 103
Birth of employment agencies for domestic services 105
Experimental growth within restricted environments 106

Phase 2: Agency boom along with marketization (mid 1990s – 2000s) 108
Birth and termination of SOE-run re-employment services 108
Mergers and spin-outs of government-run job introduction services 110
Boom of private employment agencies 112
Creative evolution in unregulated fields 114
Incubation of 'non-traditional' services 115

Phase 3: Rebalancing marketization and workers' protection (2010~) 116
(Re-)re-labelling 'traditional' services in external labour markets 117
Rise of 'non-traditional' services in internal and 'quasi-internal' labour markets 119
Promotion of strategic human resource service industry 123

Conclusion and potential transition to Phase 4 124

Chapter Six: Comparison and Conclusion **127**

Summary and comparison of previous chapters 127
Recap of research framework 127
Comparison of actor interactions 128
Comparison of employment agency evolution 131

Implications for employment agency influences 139
Employment agencies' influences on employment practices 139
Tentative conclusion of employment agencies' policy influence 141

Limitations and further studies 145

Final remarks: *The growing influences of employment agencies – good or bad?* 147

Appendix A: List of interviewees 151

Appendix B: Yin's Multiple-Case Study Procedure 155

Appendix C: Changes in Japanese Labour Dispatching Law 156

Appendix D: Owners and establishment years of major employment agencies in China 158

Appendix E: Relevant policies published during Phase 3 in China 159

References 160

List of Figures

Figure 1.1: Total revenue of employment agencies in Japan and China (in USD) 2

Figure 3.1: Actors, interactions, and corresponding section numbers 40

Figure 3.2: 'Triangular' interaction among employment agencies, workers, and large employers 46

Figure 3.3: Four types of 'triangular' relations among employers, workers, and agencies 47

Figure 3.4: 'Triangular' interaction among employment agencies, business associations, and government 54

Figure 3.5: 'Triangular' interaction among employment agencies, universities, and employers 60

Figure 3.6: Interaction among employment agencies 63

Figure 3.7: Interaction with other relevant actors 65

Figure 4.1: Changes in labour dispatching services 74

Figure 4.2: Ratio of workers recruited through job advertising, and number of job advertisements posted (all media sources combined) 79

Figure 4.3: Household internet usage rate 80

Figure 4.4: Changes in for-profit job intermediary services 81

Figure 4.5: Increase of white-collar matches made by for-profit intermediary agencies 82

Figure 4.6: Number of dispatched workers in three major occupation categories 84

Figure 4.7: Number of workers dispatched and revenue of dispatching agencies 85

Figure 4.8: Three main categories of white-collar matches made 89

Figure 4.9: Revenue growth rate of four major services 90

Figure 5.1: Total number and revenue of employment agencies during Phase 3 117

Figure 5.2: Number of client companies that used dispatching and outsourcing services 119

Figure 5.3: Growth of online job advertisements compared to in-person job fairs 120

Figure 5.4: Number of headhunting successes 121

Figure 5.5: Number of client companies that used consulting, and number of seminars held 122

Figure 6.1: Policy making steps and the level of employment agency involvement 142

Figure 6.2: The 'trinity' labour market reform and possible contributions of agencies 150

List of Tables

Table 1.1: Labour market activities and the role of employment agencies 7

Table 1.2: Overview of co-evolving employment relations and employment agencies 12

Table 3.1: Scale of four main service types in Japan and China 49

Table 6.1: Summary of key fieldwork findings of actors' behaviours and interactions 129

Table 6.2: Summary of employment agency evolution in Japan and China 133

Table 6.3: 'Traditional' and 'non-traditional' services in three layers of labour markets 138

Table 6.4: Rough estimates of annual agency growth rate and share of 'non-traditional' services in three phases of evolution 138

Table 6.5: Spiral process of policy development and employment agency participation 143

Acronyms

ACFTU	All-China Federation of Trade Unions
AJIJ	Association of Job Information of Japan
AMA	Administrative Management Agency
ASA	American Staffing Association
BPO	Business Process Outsourcing
CIIC	China International Intellectech Group Co., Ltd.
CJI	China Jiangsu International Economic and Technical Cooperation Group, Ltd.
CNY	Chinese Yuan
CPC	Communist Party of China
EA	Employment Agency
FESCO	Beijing Foreign Enterprise Human Resources Service Co., Ltd.
FDI	Foreign Direct Investment
HRM	Human Resource Management
JESRA	Japan Executive Search, and Recruitment Association
ILO	International Labour Organization
JPY	Japanese Yen
ISA	Immigration Services Agency of Japan
JILPT	Japan Institute for Labour Policy and Training
JHR	Japan Association of Human Resource Services Industry
LCL	Labour Contract Law
METI	Ministry of Economy, Trade and Industry
MHLW	Ministry of Health, Labour and Welfare
MIAC	Ministry of Internal Affairs and Communication
NEET	Not in Education, Employment, or Training
NSE	Non-Standard Employment
OECD	Organization for Economic Cooperation and Development
PRC	People's Republic of China
RMS	Recruit Management Solutions
RPO	Recruitment Process Outsourcing
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
SME	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise
VOC	Varieties of Capitalism
WTO	World Trade Organization

Chapter One: Introduction

Growth of inequality, 'non-standard' employment, and employment agencies

During my first trip to Shanghai when I was young, I witnessed glorious skyscrapers along the coast standing only a few blocks away from neglected dirt huts and torn roads. The shock of that contrast changed me permanently, and made me sensitive to less obvious indications of inequality in Japan, where I grew up. Despite being the two leading economies in Asia, both Japan and China have experienced a widening of inequality in the past few decades. Almost three-quarters of Japanese people interviewed in 2009 considered income inequality in Japan too great (Hara, 2010: 62). In China, a 2012 survey revealed that the 'rich-poor gap' was viewed as the most severe social problem, even more so than corruption (Xie and Zhou, 2014: 6928). Clearly, I was not alone in seeing inequality as one of the most pressing issues in the two countries.

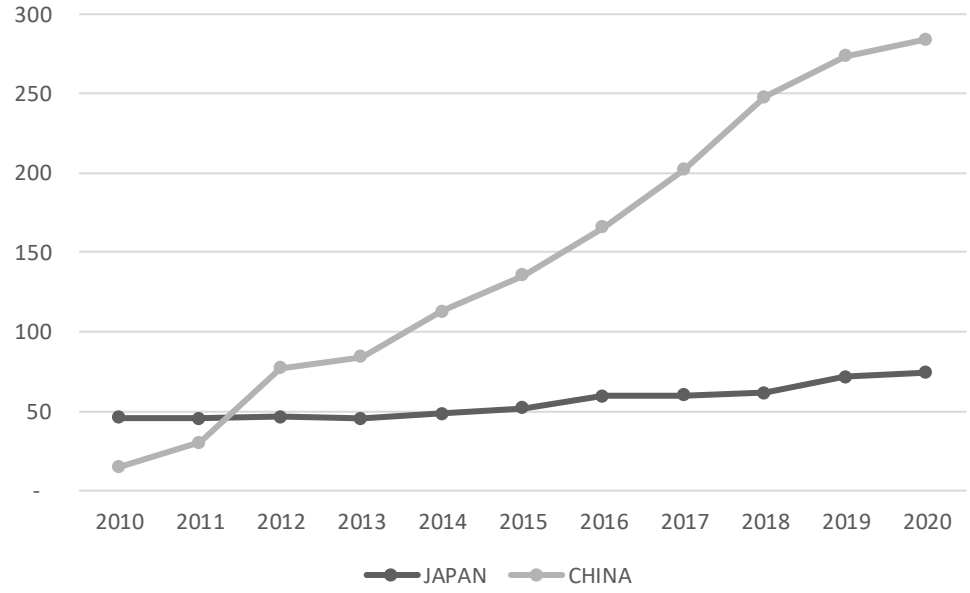
The link between inequality and economic development has been studied by many economists. Kuznets (1955) hypothesized that income inequality would grow during the early stages of economic development due to the widening productivity gap between agricultural and non-agricultural industries but would eventually decrease as economies mature and the low income population catches up. During the same period, Lewis (1954) predicted that employment opportunities in capitalist economies would expand to absorb surplus labour until all workers obtain a position with a certain wage and social standard. However, the optimism for equality evoked by the Kuznets Curve and Lewis Turning Point slowly faded as unemployment and 'non-standard' employment persisted, and in fact grew over time. Building upon Kuznets' framework, Milanovic (2016) gleaned from historical data that inequality rises and falls according to various 'malign' and 'benign' forces. The 'flexible' labour market was identified as a threat to welfare states by causing a decline of the middle class (Milanovic, 2016: 207). Today, many scholars and international organizations are alarmed by this transformation of employment relations because it has exacerbated labour market segmentation, precariousness, and inequality (for example, ILO, 2016; Perry et al, 2007; Weil, 2014).

Since the expansion of globalization and market liberalization in the 1970s, the 'flexibilization' of employment relations has begun to spread worldwide (Xu, 2016). Instead of traditional 'standard' employment, which is defined as full-time, with indefinite duration, and a direct relationship between employer and employee (ILO, 2016), companies introduced various forms of 'non-standard' employment to accommodate rapidly-changing market demands, including temporary, part-time, dispatched, and outsourced workers. Japan and China are no exception. The ratio of 'non-standard' employees in Japan doubled from 19% in 1989 to 38% in 2014 according to

Japan's Ministry of Health, Labour, and Welfare (MHLW, 2018). In China, the ratio of 'non-standard' workers is estimated to have more than tripled from 18% in 1990 to 62% in 2015 (Zhao, 2015).

Along with the abovementioned trend, employment agencies have become part of a booming industry. In the U.S.,[1] total staffing and recruiting industry sales doubled between 2003 and 2017, from 80 billion USD to 161 billion USD (ASA, 2018). In Japan, the revenue of employment agencies has increased from about 6 trillion to over 10 trillion JPY between 2010 and 2020, surpassing the railway, hotel, and several other major industries (JHR, 2019). In China, the government has been strategically promoting the human resource service industry since 2007, and between 2010 and 2020, the revenue of the industry has grown by 20 times to about 2 trillion CNY (Xiao et al, 2021). In Japan, it was estimated that over half of workers who acquired a new job in 2017 had used some form of employment agency service (MHLW, 2017b), and in China, employment agencies were reportedly involved in over 250 million workers getting new jobs in 2019 (Xiao et al, 2021). These numbers suggest that perhaps most of us today have either knowingly or unknowingly interacted with employment agencies or employment agency workers at some point. Figure 1.1 shows the estimated revenue growth of employment agencies in Japan and China between 2010 and 2020.

Figure 1.1: Total revenue of employment agencies in Japan and China (in billion USD)



Data compiled from various sources[2]

[1] It is the home of Manpower group, one of the oldest and largest employment agencies in the world.
[2] Sources on Japan: MHLW, AJIJ, and IR reports of large employment agencies. Sources on China: MHRSS and annual Blue Paper of Human Resource Service Industry.

Previous studies on employment agencies

Despite the industry growth, there is a lack of familiarity with employment agencies, what they do, and how they work. This may be attributed to the fact that few studies have highlighted employment agency services as a whole. Parts of employment agency practices are frequently mentioned as an example in broader research topics, such as legal, labour, and ethnographic studies. In legal studies, especially in literature on labour law in Japan, analysis of differences among employment agencies' intermediary, dispatching, and subcontracting arrangements is commonly conducted (for example, Sugeno, 2004; Anzai, 2005; Matsuura, 2019), but these studies are mainly interested in legal and business structures, and pay little attention to other employment agency services that are not clearly defined legally (advertising, training, consulting, etc.). Even for services that are regulated by law, they do not address how employment agencies behave differently and creatively in practice, and how they may be influencing these regulations from the bottom-up.

In labour and ethnographic studies, employment agencies are brought up in the context of exploitation, precariousness, and informality, along with the narrative of liberalization and deregulation, and tend to focus on specific groups of workers that are especially associated with these negative images, such as dispatched, outsourced, seasonal, temporary, and migrant workers (for example, Fu, 2009; Kipnis, 2016; Feng, 2018; Zhang and Friedman, 2019). These studies provide empirical insights into agency workers' realities by observing a specific type of worker group at a specific corporation, industry, or region, but cannot explain why certain types of employment agency practices are more common in their case studies compared to other cases, let alone address overall employment agency growth and influence.

Among these studies, labour dispatching agencies are most frequently put under the spotlight in Japan and China (of which Japan-China comparison was conducted by Yokoi et al, 2010; JILPT, 2011; Zou, 2018), despite the fact that the ratio of dispatched workers is relatively low,[3] and that labour dispatching is merely one of many types of services provided by employment agencies. This is partly because dispatching businesses have been highly politicized in both countries as a tool to criticize market liberalisation, and as a vivid example of the negative consequences of labour flexibilisation (Tsuru et al, 2011; Li, 2015; Feng, 2019). In addition to their political and social significance, dispatching agencies in both countries have been explicitly regulated by a series of regulatory changes, and have been surveyed by the government annually, which makes it easy for researchers to single them out and utilise the abundant available data to make analyses.

[3] About 2.5% of the entire workforce in Japan (Statics Bureau of Japan, 2019) and less than 1% in China (National Bureau of Statistics in China, 2019).

Other types of 'non-standard' employment and employment agency services do not receive the same level of attention, especially part-time workers and outsourced workers. Many of them are hired through employment agency services and they comprise the largest number of 'non-regular' workers in Japan and China respectively, but the research that is specifically focused on them has been limited to case studies of their work conditions in a certain region or industry (for example, Honda, 2007; Chen, 2016). The lack of interest in part-time workers by academics in Japan, despite their abundance, may be attributed the false impression that part-time workers are generally satisfied with their work arrangements, since many of them have other primary statuses such as students, housewives, and retirees (Honda, 2010; Blind et al, 2015). The outsourced worker population in China exploded in the 2010s after labour dispatching regulations were tightened, but relevant research has been overshadowed by other more visible related issues such as rural-urban divide, informal economy, and more recently, 'gig' workers (for example, Li et al, 2012; Stainback and Tang, 2019; Yang et al, 2020). In addition, the roles of 'regular' and 'non-regular' workers, including part-time and outsourced workers, have become increasingly difficult to differentiate, even though their gap in wage and social security benefits remains wide. This tendency is advantageous for employers because it reduces their costs (and helps employment agencies gain new clients), but is creating a large group of dissatisfied workers who are performing the same function as 'regular' workers for much less reward.[4]

Not much literature has been written on other employment agency services such as advertising, online recruitment, and consulting, even though these are some of the fastest growing business fields in both countries. However, as will be shown throughout this thesis, employment-related businesses have taken various creative forms and have been constantly transforming to find market niches and legal loopholes. Therefore, in addition to following the development of major employment agencies and commonly known employment agency services individually, it is important to study the entire industry to capture the change of scale and service content in both countries.

Definition and categorization of employment agencies and labour markets

When a person looks for a new job, s/he may go to a job search platform, or register with a scouting website run by employment agencies, instead of directly applying with employers. Even when the jobseeker applies directly, the application website and the applicant evaluation systems are most likely designed by employment agencies. On an operational level, when manufacturers

[4] In Japan, for example, Honda (2010), who observed various s*hufu paato* (part-timers whose primary role is considered housewife), revealed their heightened frustration and dissatisfaction due to the rapid increase and diversification of their responsibility despite unchanging wages and limited promotion opportunities.

build a new factory, they may ask employment agencies to supply factory workers; a temporary clerical worker sitting right next to a 'regular' employee in the office, a 'cleaning lady' that comes once a day, or a 'security guy' in the building, may very well be employment agency workers. On a higher management level, when a company needs a new lawyer, an IT specialist for system updates, or a consultant for wage system revisions, they are commonly found through employment agencies; company managers often attend seminars hosted by employment agencies to stay up-to-date with human resource-related information. These are but a few examples of how employment agencies contribute to today's labour markets.

In 1997, the International Labour Organization (ILO) legitimised for-profit employment agencies and provided the following definition:

> … the term ***private employment agency*** means any natural or legal person, independent of the public authorities, which provides one or more of the following labour market services:
> (a) services for matching offers of and applications for employment, without the private employment agency becoming a party to the employment relationships which may arise therefrom;
> (b) services consisting of employing workers with a view to making them available to a third party, who may be a natural or legal person (referred to below as a "user enterprise") which assigns their tasks and supervises the execution of these tasks;
> (c) other services relating to jobseeking, determined by the competent authority after consulting the most representative employers and workers organizations, such as the provision of information, that do not set out to match specific offers of and applications for employment. (Article 1, ILO Convention No. 181, emphasis in the original)

As will be presented in chapters three through five, employment agencies in Japan and China are generally consistent with the ILO definition. In addition, based on their legal and contractual arrangements regarding fees, wages, and supervision, their services can be categorized into four types: intermediary/headhunting, advertising, dispatching, and subcontracting/outsourcing. However, in practice, the differences among these types of services are increasingly blurred, as employment agencies have been co-evolving with the change in employment relations and labour markets through constant negotiation and adjustment with their institutional settings.

Functionally, employment agency services today can be divided into two types: 'traditional' labour provision such as intermediary, dispatching, and subcontracting services, and more strategically involved 'non-traditional' services such as recruitment process outsourcing, human

resource management system building, consulting, training, and so forth. The former was developed and established by the 2000s in both Japan and China, and remains the major employment agency service today; the latter has grown since around 2010, more rapidly in China than in Japan, and has become the core service provided by large employment agencies in China. An analysis that includes all types of services is necessary in order to capture the entire picture of employment agencies' evolution and influence. Throughout this thesis, I will use 'human resource service industry' as an all-encompassing term for employment agency practices.

The role of employment agencies differs depending on the labour market, which is often divided into 'internal' and 'external' labour markets. In 'internal' labour markets, which were established in the form of 'community firm' (Inagami and Whittaker, 2005) in Japan, and work 'units' (*danwei*; Lü and Perry, 1997) in China, 'regular' workers follow their employer-specific rules regarding wage, welfare, training, job allocation, promotion, and so forth. In contrast, 'external' labour markets support inter-company worker mobility, and are utilised by employers to find workers on a needs-basis, often in the form of 'non-standard' employment. Many scholars in Japan argue that the disconnect between internal and external labour markets, in addition to the stronger institutionalisation of the former than the latter, is one of the major factors hindering Japan's labour market reform (Inoki and Higuchi, 1995; Sugeno, 2004). In addition, Kariya and Rosenbaum (1995) reveal a third category, 'quasi-internal' labour markets, by pointing out the link between a person's choice of school and their likelihood of entering a certain 'internal' labour market. This linkage can also be applied to employment agencies; when a job seeker looks for work through employment agency services, the employment options will depend on the chosen employment agency, and the worker will likely end up at one of the agency's client companies.

Upon reviewing the above literature on employment agencies and labour markets when I was preparing for fieldwork, I expected employment agencies to have a growing presence in 'non-standard' employment and external labour markets. However, during my fieldwork, I quickly discovered that employment agencies may also be influencing 'standard' employment and the recruitment of 'regular' workers, within internal and 'quasi-internal' labour markets, though more so in China than in Japan. Table 1.1 summarizes these activities and functions of employment agencies in each layer of labour market, which will be referred to throughout this thesis. A more detailed summary of employment agencies' roles will be presented in chapter six.

Table 1.1: Labour market activities and the role of employment agencies

Layers of labour market	Main activity	Agencies' roles
Internal labour market	'Standard' employment relations	'Non-traditional' services
'Quasi-internal' labour market	Recruitment and provision of 'regular' workers	Both 'traditional' and 'non-traditional' services
External labour market	Recruitment and provision of 'non-regular' workers	'Traditional' services

Significance of comparing Japan and China: The rise and fall of 'standard' employment

Since Japan and China are considered 'capitalist' and 'socialist' economies respectively, a comparison may seem unorthodox. However, particularly regarding employment policies and practices, previous studies have provided at least four justifications for a Japan-China comparison, the most obvious one being that some of these studies are in fact comparing employment relations between the two countries, which supports the validity of my approach. For example, Japan and China are included together in broad-range studies on non-standard employment and employment agencies led by the International Labour Organization (ILO).[5] Similar large-scale research, as well as specific Japan-China comparative studies, have also been conducted by scholars and research organizations in both countries, including the Japan Institute for Labour Policy and Training (JILPT) and the Chinese Academy of Labour and Social Security (CALSS).[6] These studies justify their Japan-China comparisons based on one or a combination of the following rationales: Developmental State theory that emphasises state-led industrialisation in both countries, a 'late development' framework that situates both countries in a similar developmental stage, commonalities in labour law structures, shared cultural heritage derived from Confucian ethics, geographical proximity, and the size of the economy.

The second *ex ante* justification for this thesis is that many aspects of Chinese labour laws were modelled after Japanese laws, as pointed out by some of the scholars listed above (and later confirmed by my interviews with policymakers in China). Specific to my research is the 'triangular' relationship among employers, workers, and employment agencies which I will discuss in detail in chapter three. Rules regarding fees, wages, and supervision were set similarly in both Japan and

[5] In particular, when designing this thesis, I referred to the following ILO reports that included both Japan and China: 'Guide to private employment agencies' (2007); 'Non-standard forms of employment' (2015); 'The regulation of non-standard forms of employment in China, Japan and The Republic of Korea' (2015); 'Non-standard employment around the world' (2016).

[6] To list a few, see Chen (1995) for management system comparison, Unger and Chan (2015) for state corporatism comparison, Yokoi et al (2010) and Zou (2018) for labour dispatching comparison, CALSS (2018) for non-standard employment comparison, Kume and Nakamura (2020) for managers' work comparison, and JILPT Databook (2022a) for macroeconomic comparison.

China under four specific service categories, based on which I can compare how actual practices have been carried out similarly or differently by labour market actors in the two countries. The size of the economy also matters when conducting an economic comparison, and Japan and China are the second and third largest in the world in terms of GDP. However, other large economies such as the US, Germany, and the UK have different legal arrangements regarding 'triangular' relationships, making them less comparable with Japan and China.

Thirdly and more interestingly, when looking beyond political 'labels' between Japan and China, previous literature has revealed close commonalities of the two countries' employment *practices*, from which a comparison of employment agencies can be designed. Putting together these studies, in short, Japan and China shared similar 'standard' employment practices during the post-WWII era, followed by an accelerated liberalisation and expansion of 'non-standard' employment in the 1990s and 2000s, and have had an increased emphasis on equal and sustainable labour market development in recent years. Built upon these commonalities, at the end of this section I will present my comparative framework for tracing the co-evolution of employment relations and agencies using the compressed development framework, which will be further elaborated in the next chapter. Before doing so, I will now discuss the rise and fall of 'standard' employment practices in Japan and China based on my literature review.

During the 1950s, a 'standard' employment system was institutionalised in both countries (Perry, 1997; Imai, 2011). In Japan, 'Japanese-style' employment, characterised as a 'community firm' (Inagami and Whittaker, 2005), took form. It was commonly argued that lifetime employment, seniority systems, and enterprise unionism were the core features of Japanese 'standard' employment developed during this time, and were referred to as the 'three pillars' of Japanese management (Sakikawa, 2012). At around the same time in China, the workplace 'unit' (*danwei*) system, described as a "small society", was established (Lü and Perry, 1997: 9). Their version of the 'three pillars' were the "three old irons, i.e., life-time employment (the 'iron rice bowl'), centrally administered wages (the 'iron wage'), and state-controlled appointment and promotion of managerial staff (the 'iron chair')" (Ding and Warner, 2001). Obviously, the enforcers of 'standard' employment differed, being large businesses in Japan, but government organizations in China, and the workers were expected to be loyal to the company in Japan, but to the Communist Party in China. However, they shared great commonalities in practice, not only regarding work-related elements such as high job security, extensive welfare, internal job allocation, and on-the-job training, but also that many aspects of life outside of work were heavily dependent on the employer, such as housing, clubs, family events, weddings, funerals, and so on (Dore, 1973; Naughton, 1997).

Following an egalitarian ideology, wages were almost purely based on seniority until an evaluation component was introduced during the 1960s in Japan and 1970s in China (Chan, 1997; Pringle, 2011). In addition, enterprise unions bargained on relatively friendly terms in both countries because union workers were more likely to be promoted to management positions later (Chan, 1997). Even when promoted, the management salary was not much higher than regular workers; the manager-worker pay ratio in the mid-1960s was less than 5 to 1 at large Japanese companies (Matsumoto, 2021), and around 3 to 1 at Chinese SOEs (Richman, 1969). However, despite this relative equality among 'standard' workers at large enterprises in both countries, workers who were excluded from such communities could not enjoy the same level of privilege, creating a dual structure between workers at large corporations versus small and medium-sized enterprises (SMEs) in Japan, and between *danwei* and non-*danwei* workers in China (Gordon, 1985; Whittaker, 1997; Perry, 1997). Later, these workplace-based dual structures in both countries were gradually taken over by worktype-based 'new' dualism, which is one of the main discussions in this thesis. The 'new' dual structures have been described as 'regular' versus 'non-regular' worker dualism in Japan (Gordon, 2012), and 'formal' versus 'agency' worker dualism in China (Feng, 2018).

Egalitarian ideology was also heavily reflected in the two countries' government-organized school-to-work allocation systems carried out during the post-WWII era, by public employment security offices (*shokuan*) in Japan, and personnel (*renshi*) offices of *danwei* in China. These public agencies served as controllers and adjustors of labour market mobility, and protectors of the job security and welfare of workers during this time (Kariya et al, 2000; Xu, 2016). They later became major contributors to labour market flexibilization, and were in many ways the forerunners of the for-profit employment agencies studied in this thesis.

It is worth noting that in both Japan and China, the government was heavily involved throughout their modernization process when they were trying to catch up with the West, and the role of state in this process is captured in various theories such as Developmental State (Johnson, 1982; Beeson, 2009) and 'techno-nationalism' (Samuels, 1994; Nakayama, 2012). During the post-WWII period, both Japanese and Chinese governments supported heavy industrialization through extensive subsidization, preferential capital, and license allocation (Hua and Hu, 2015), though development was more successful in Japan under US patronage, while China adopted the Soviet centralized system (Hellman, 1988; Chen, 1995).

The 'standard' employment institutions, celebrated in both countries for their contribution to economic growth and stability, began to be challenged in the 1970s and 1980s. In Japan, the discussion of the need for streamlining business increased along with the slowing down of economic growth since the 1972 oil crisis, which led large businesses to utilise more 'non-standard'

employment, as well as to expand subcontracting arrangements in order to achieve cost reduction, workload management, and faster product development (Kusano, 2021). In China, the chronically low productivity[7] of state-owned enterprises (SOEs) led government leaders to agree upon a market-oriented policy reform in 1978, which gradually increased each employer's discretion regarding recruitment, internal reallocation, wage distribution, and so on, albeit with a government-imposed cap (Blejer et al, 1991). Since these adjustments were carried out slowly and experimentally in both countries at first, the growth of 'non-standard' employment was not yet drastic during the 1980s, and the norm of 'standard' employment strongly persisted.

Accelerated labour market flexibilization and the associated rise of 'non-standard' employment began in the 1990s in both countries. In Japan, large businesses pushed for labour market reforms, exemplified in the publication of *New Japanese-Style Management System* by the Japan Federation of Employers' Associations (*Nikkeiren*) in 1995, which discussed the need for more flexible and diversified labour markets that reflect globalisation, digitalisation, and individualism. In China, Deng Xiaoping's southern tour in 1992 confirmed the need to continue the path of 'reform and opening-up', which gave confidence to local leaders for further pursuing marketisation, while suppressing the conservatives who were dubious about the reforms. A series of labour market policies announced in the following decades directly and indirectly contributed to the rise of flexible employment and employment agencies in both countries, which will be discussed throughout this thesis.

Lastly, this thesis' comparison is also a case study of the compressed development framework, which identifies Japan as a 'late developer' and China as a 'compressed developer'. By applying this framework, a Japan-China comparison can be conducted not just based on their similarities, but also as an empirical examination to explain the different timing, speed, and patterns of economic development in both countries. One of the most significant differences between labour market liberalisation in Japan and China was their speed of transformation. While 'standard' employment institutions continue to persist in Japan, with 'non-standard' practices gradually layering on top, China's 'iron rice bowl' was more rapidly displaced by flexible labour market policies and practices, although remnants of the planned economy era's employment norm can still be observed in government organizations and SOEs. The differing degrees of liberalisation can also be seen in their level of integration to the global economy. For example, between 1995 and 2010, the average net inflow of foreign direct investment (FDI) in Japan was less than 0.2% of its GDP, compared to about 4% in China (Word Bank). While Japanese companies selectively studied

[7] For example, Richman (1969) estimated that the value of industrial output per employee in 1965 was about 10 times higher in Japan than in China.

'Western-style' management, Chinese enterprises were directly learning from, and adopting to, the large influx of foreign businesses and their employment customs, which also greatly contributed to China's dynamic evolution of employment practices.

From these changes arose employment agencies as promotors of labour market deregulation and flexibilization. Their relatively gradual development in Japan compared to the more dramatic expansion in China reflects both similarities and differences of labour market changes in the two countries. Combined with the historical institutionalism and compressed development framework discussed in the next chapter, a comparison can be designed based on the following concepts:

(1) Labour market institutions in the 'embedded liberalism' era (1945-1980s) supported 'standard' employment systems that featured long-term stability and commitment, whereas the 'neoliberalism' era (1990s-) can be characterized by the rise of flexible, precarious, and on-demand 'non-standard' employment relations;
(2) Institutions that are established during a country's rapid economic development period tend to be more resilient to change, which indicates that features of the 'embedded liberalism' era, in which Japan experienced rapid growth, persist more strongly than in China, as China's high growth period was during the 'neoliberalism' era;
(3) Institutional continuity and change are the result of constant adaptation between actors and institutions, which means that labour market actors (such as employment agencies) and labour market institutions (such as employment relations) co-evolve through mutual influence.

To visualise these intertwining timelines and concepts, Table 1.2 provides an approximation of Japan's and China's (1) per-capita GDP growth rate, (2) ratio of non-standard employees (NSE), and (3) the revenue growth rate of employment agencies (EA). The rapid labour market flexibilization in China can be seen in the drastic rise of 'non-standard' employment, and even more astonishing growth of employment agencies, which coincided with the country's high economic growth and integration to the global economy. In comparison, the 'standard' employment relations established during Japan's high growth era persisted strongly, as shown in the more gradual increase of 'non-standard' employment and employment agencies. The slowdown of employment agency growth since the 2010s in both countries is largely attributed to tightened worker protection against exploitative practices, which will be discussed in chapters four and five.

Table 1.2: Overview of co-evolving employment relations and employment agencies

		Embedded liberalism				*Neoliberalism*		
		1950s	1960s	1970s	1980s	1990s	2000s	2010s
GDP growth	JP	**------10%------**		------5%------		----------0-2%----------		
	CN	-------2-4%-------			7%	**-------Over 10%-------**		
NSE ratio	JP	Less than 20%				25%	30%	**35%**
	CN	Less than 20%				30%	50%	**60%**
EA revenue growth	JP	(EA not yet established)				10%	**20%**	10%
	CN					**Over 100%**		40%

Data compiled from various sources[8]

Clarification of employment types and citation rules

There are several conventions that I follow in this thesis that need clarification. The first is regarding the term 'standard' employment and 'regular' workers. For my research purposes, they are interchangeable for the most part, but I use the former when I want to discuss institutional characteristics or to stress employer-employee relations from an employer's perspective, whereas the latter term is mainly used to discuss the status of a worker. In some literature on China, they are referred to as 'formal' employment and 'formal' workers, and I only use these terms when I directly cite from the literature.

Relatedly, what is considered 'standard' employment or a 'regular' worker differs in China depending on the time period. During the planned economy era, 'standard' employment conditions, signified by the 'iron rice bowl', were similar to that of Japan's as well as the ILO definition discussed above, which are full-time, with indefinite duration, and a direct relationship between employer and employee. However, along with China's marketisation, the 'iron rice bowl' institutions were gradually displaced by the new 'contract-based' employment, which became the new 'standard' employment practices. Today, there are two distinct types of 'contract' workers in China. The first type are newly-hired 'elites' that begin with an initial contract of one to three years, which turns into an open-term contract after several fixed-term renewals. I categorise these under 'standard' or 'regular' workers in this thesis, which matches the actual practices and most legal scholars' opinions in China. Needless to say, workers who hold full-time, open-ended, and direct contracts, including older workers hired before the enactment of labour contract systems, are also considered 'regular' workers.

[8] Growth rate estimated from Blejer et al, 1991; World Bank; Maddison Project Database. 'Non-standard' employment in Japan estimated from the Ministry of Health, Labour and Welfare; Gordon, 1985; Kusano, 2021. 'Non-standard' employment in China estimated from the Chinese Academy of Labour and Social Security; Walder, 1988; Zhao, 2015. For details on employment agency growth and their sources, see chapters four (Japan) and five (China).

The second type of 'contract' workers in China are those with short-term or temporary contracts that are relatively precarious, and 'contract' workers in Japan are exclusively this type because its 'standard' employment terms are for indefinite duration upon hiring. These workers are categorised under 'non-standard' employment in both countries. Moreover, an employment category unique to Japan is its differentiation between *paato* (derived from 'part'-time) and *arubaito* (derived from *'arbeit'* in German) in most literature and government statistics. They are both part-time employment, but in practice, the former is associated with employment of housewives during a set time of the day, and the latter with younger workers and flexible work shifts. This differentiation is not crucial for my research purpose, so I refer both types as part-time workers under 'non-standard' employment in 'external' labour markets.

More importantly, the term 'agency' workers is used periodically in this thesis, and this refers to any workers that are not hired directly by their workplace but are sent through an employment agency. Because the differentiation among labour dispatching, subcontracting, and outsourcing is fairly clear in Japan, this term is not often used in Japanese literature. However, the 'triangular' relationship among agencies, employers, and workers has varied greatly in China due to lack of regulation during the initial development period of employment agencies, and lack of monitoring even after laws were set. Hence, the term 'agency' worker is used as an all-encompassing reference to those who work through employment agencies regardless of the contract type, or with no formal contracts.

I would also like to briefly mention the conventions of interview references I use in this thesis. To maintain anonymity, interviewees are coded according to the organizations they belong to, which are divided into three categories in Japan and China each: Japanese Agencies (JA) and Chinese Agencies (CA); Japanese Employers (JE) and Chinese Employers (CE); and other Japanese Organisations (JO) and other Chinese Organisations (CO). Appendix A lists these coded organisations, titles of main interviewees, main businesses (if not employment agencies), corporate structure/ownership, interview dates, number of interviewees at organisations, and their gender. These interview codes will be referred to throughout my empirical chapters when I cite from interviews.

Most interview quotes are kept short, and are enclosed in double quotation marks (" ") within sentences. I also borrow short keywords or phrases from interviewees to show how they label certain phenomena, which are also enclosed in double quotation marks (for example, "real outsourcing"). Single quotation marks (' ') are used to signify that the term enclosed by them are discussed in a generalised manner, although the real definition of the term may be much more

complex. 'Standard' employment and 'regular' workers discussed above are a good example, as they are defined differently in Japan and China, even depending on the era within China.

Outline of Thesis

Many of the studies listed above hint that employment agencies have become an active player in the labour market, but few of them provide insight on how and why employment agencies have grown, what their motivations are, and what influences they have on labour markets and employment relations. This thesis attempts to tackle these issues by taking a close look at labour markets and employment agencies in Japan and China. My main research question asks:

How have employment agencies evolved in Japan and China, and what influences have they had on the evolution of labour markets and employment relations in both countries?

In response to the growth of employment agencies since the 1990s, the Chinese government learned from Japanese labour laws when drafting employment agency regulations (interviews, CO3; CO5; CO8). This led to similar legal arrangements in Japan and China (Zou, 2018), but employment agencies nonetheless evolved differently by taking various creative paths of evading, manipulating, and adapting to the changes in the market and regulation, which is the general observation of this thesis. To pursue this topic, I use historical institutionalism and actor-centred institutionalism as my theoretical framework. In contrast to rational-choice approaches such as *Varieties of Capitalism* (Hall and Soskice, 2001), both theories emphasize the significance of actors' interactions and their influences on institutions; historical institutionalism traces the incremental changes caused by constant negotiations between actors and institutions, and actor-centred institutionalism helps categorise actors, analyse their interactions, and explain institutional outcomes. I apply these perspectives when discussing how employment agencies interact with other actors such as large companies and government organizations in chapter three, how they have evolved and been involved as a labour market actor in the institutional changes in chapters four and five, and how they have influenced employment relations and labour markets in chapter six. This theoretical framework will be outlined in detail in **chapter two**.

Despite cultural, historical, and legal similarities, employment agencies transformed more quickly and dynamically in China than in Japan, and so did its overall economy and employment relations. Using the 'compressed development' framework (Whittaker et al, 2020), which shows that the shaping of a country's institutions tends to coincide with periods of high growth and integration

into the global economy, the difference in speed and scale of employment agencies' evolution in Japan and China can be explained by the different eras in which the two economies globalised and grew the most. As a '(late-) late developer', the Japanese economy and labour market was strongly established during the post-war 'embedded liberalism' era, which is associated with 'standard' employment practices, with little room for employment agencies. On the other hand, China experienced its fastest growth as a 'compressed developer' during the 'neoliberal' era, in which the labour market underwent a series of deregulations and opened up more opportunities for employment agencies to act in the field of 'non-standard', 'flexible', and 'informal' employment relations. Moreover, compressed development, historical institutionalism, and actor-centred institutionalism all point out that once institutions are established and actors have settled to their institutional settings, they become resistant to change thereafter. This framework will also be introduced in chapter two, and will be referred to throughout my thesis.

Built upon the above framework, the highlight of this thesis is the empirical findings from my fieldwork in Japan and China. I first visited managers at major employment agencies in both countries to understand their changes *in practice* in relation to the market and regulatory environments, with a focus on their diversifying service provision and interactions with other stakeholders, mainly with their large clients. I then visited large employers to gain deeper knowledge of how they use employment agencies in relation to their changing corporate needs and human resource strategies. I also visited some policy makers to supplement the knowledge gap from my literature review, mainly on the policy drafting processes where employment agencies may have influence. During each visit, I conducted interviews with managers who often also offered to share their internal documents and take me on a brief company tour. I adopted the viewpoint of critical realism, and took a qualitative, retroductive approach to conduct my comparative, multiple-case study in both countries. The detailed methodology and methods will be explained in the latter half of chapter two, and the list of interviews can be viewed in Appendix A.

Following the historical institutionalism and actor-centred institutionalism approach, identification of relevant actors and analysis of their interactions are the first steps in observing how employment agencies act within the labour market. The two most important actors are individual workers and employers, as employment agencies were created as an alternative path to connect them. The 'triangular' relationship among employment agencies, workers, and employers can take various forms, leading to different types of services provided by employment agencies in Japan and China. Based on elite interviews I conducted at 80 organisations, **chapter three** provides a snapshot of this 'triangular' interaction by listing the major types of services, and by showcasing how these services were offered by employment agencies. It pays particular attention to how and why certain

agencies and services were chosen over others by their clients, which may be dependent on their long-term relationships, various ways to work around regulations, and availability of workers.

In addition to workers and employers, I will also list other relevant actors and their interactions identified during my fieldwork in chapter three. These include business associations, governments, universities, labour unions, IT and consulting firms, and industrial parks. Overall, behaviours of actors were more 'uniform' and 'standardized' in Japan, but more 'uneven' and 'mixed' in China, reflecting the late development and compressed development era in which they experienced rapid economic development respectively. In addition, actors in Japan were struggling to balance between the maintenance of existing 'standard' employment and the increasing necessity to promote labour flexibility. As a compromise to these conflicting motivations, employment agencies played a supplementary role in the field of 'non-standard' employment in order for their clients to protect 'standard' employment. In contrast, the motivation to 'flexibilize' labour markets were more aligned among actors in China, and as a result, employment agencies in China were more actively involved in government and corporate strategies on human resources.

By introducing different types of employment agency services, labour market players, and their overall interactions, chapter three will provide key knowledge needed to more directly tackle my research question in the following chapters. In **chapters four (Japan) and five (China)**, I trace the evolution of employment agencies in relation to changes of employment policies and practices. In both countries, employment agencies followed a roughly similar developmental pattern and time frame, which can be studied as three evolutionary phases:

- Phase 1 (until the mid-1990s): exploratory growth within restricted environments
- Phase 2 (mid-1990s to 2000s): agency boom along with liberalization
- Phase 3 (from around 2010 on): rebalancing liberalization and workers' protection

In Japan, most of today's major for-profit employment agencies emerged during Phase 1 in the 1970s and 1980s (with the exception of Recruit, created in 1960), with an intention to search for new business opportunities in the rising market need for 'non-standard' employment. For-profit employment agencies were not yet legalised during this time, but these small start-up companies found a market niche as providers of office support and job advertising services. Deregulation of for-profit employment agencies began in Phase 2, and along with a series of labour market liberalisation policies, today's four main types of employment agency services ('traditional' services) formed and rapidly grew. However, because of lax regulations, exploitation of agency workers became rampant, which led policy makers to protect workers by pivoting back to tighter regulations during Phase 3. Today, labour market policies in Japan are set to bridge the gap between 'standard' and 'non-

standard' workers, with the latter including dispatched workers and non-permanent workers hired through employment agencies, but so far these policies are barely reflected in agency practices.

In China, employment agencies in Phase 1 were created almost exclusively by local governments (1) to support the incoming foreign businesses since the 1978 'reform and opening-up', (2) to attract educated or skilled workers to newly developing regions such as Shenzhen, and (3) to solve unemployment problems of laid-off SOE workers and returned 'sent-down youth'. Many of these experimental and regional agencies transformed into profit-seeking SOEs as the marketization process accelerated in the mid-1990s. Private employment agencies also sprouted up quickly nationwide during Phase 2, and became a popular means for employers to cut costs and to evade the newly developed legal requirements for labour contracts. 'Traditional' agency services formed during Phase 2 have continued throughout Phase 3, but their growth has slowed down, while various 'non-traditional' services have quickly developed. Today, employment agencies are forming a comprehensive 'human resource service industry' that has become a part of China's core economic development strategies.

After tracing the evolution of employment agencies in Japan and China separately in chapters four and five to highlight each country's significant events, in the final chapter (**chapter six**), I conduct a comparative analysis of these findings to more directly answer my research question regarding the influence of employment agencies. A comparison is first made to highlight the changing similarities and differences of employment agencies' main purposes, activities, and institutional settings in which they operate, along with the three evolutionary phases. I then discuss the implications of these findings for employment agency influence on labour markets, particularly on government policies and employer practices. For employer practices, a rough estimate of employment agency growth and the ratio of 'traditional' to 'non-traditional' services will be provided to point out their increased influence in internal, 'quasi-internal', and external labour markets.

Chapter six also lists various ways employment agencies are involved with policy change in Japan and China, showing that they may be influencing every step of the policy-making process directly or indirectly. It also addresses the phenomenon of employment agencies having a greater influence on government policies in China than in Japan, which may be counterintuitive because of the authoritarian nature of Chinese government. Although this research highlights various understudied aspects of employment agencies in the two countries, there are certainly limitations and many ways to further expand this research, which will be briefly discussed along with some suggestions in chapter six. Lastly, I would like to end this thesis on a positive note, by pointing out

possible ways employment agencies may contribute to a more equal labour market outcome while promoting labour market flexibilization.

Expected contributions

Comparison of co-evolution among employment policies, employment practices, and employment agencies in Japan and China will reveal historical, geopolitical, and socioeconomic contexts that contribute to institutional change and continuity. More specifically, I expect the following outcomes from this research. Firstly, I hope to make a theoretical contribution to institutionalisms by analysing how economic actors interact with each other, and how they can gradually bring about or influence structural change. Particularly, it adds an economic perspective to historical institutionalism that is more politically focused, and empirical support for underdeveloped actor-centred institutionalism.

Secondly, this research empirically tests the recently published 'compressed development' framework by applying its comparative approach to analysis of labour market actors in two countries that experienced high economic growth in two different eras. By adding an actor-centred perspective, it strengthens the empirical justifications for an economic comparison of Japan and China, despite their different political structures.

Thirdly, I would like to direct attention to employment agencies as a significant economic actor in Japan and China by putting a spotlight on their historical development, as well as their variegated influence on the labour market policies, employment practices, and other market actors. As Stortz et al (2013) point out, "[w]hile the comparative capitalism literature has always stressed that [actors] are at the core of economic systems and of institutional change, we only possess a very limited understanding of how they interact with the institutional set-up, how they act at different levels […] and how different institutional regimes offer different opportunities for change" (227).

More specifically, by holistically analysing the entire 'human resource service industry', rather than studying individual cases of agency services, this research reveals a dynamic transformation of employment agency practices and their roles in labour markets. This approach is also consistent with the emphasis on 'looking beyond labels' discussed above, showcasing agencies' ability to creatively morph across service 'categories' without compromising their workflow, which has been a significant means to evade or re-interpret policy changes.

Lastly, and more speculatively, this comparative study will enable me to identify institutional factors contributing to unequal labour market outcomes and segmentation, which may point the way to more effective regulation and policy toward reducing precariousness, ultimately shrinking inequality. This was an important motivation for undertaking my research.

Chapter Two: Research framework

As discussed in the previous chapter, I have yet to find a comprehensive analysis of the evolution and influence of employment agencies in either Japan or China among the dearth of available literature. In order to introduce the significance of this understudied labour market actor, and to best tackle my research questions, I chose to incorporate different theories and concepts to build a multi-dimensional framework. Based on an eclectic approach to labour market institutions and actors, I designed a qualitative, retroductive, and comparative analysis for new empirical findings on employment agencies in Japan and China.

The first half of this chapter discusses my theoretical framework, and the latter half outlines my research questions, methodology, methods, and fieldwork experiences. They will support two distinctive analytical themes in the following empirical chapters, which are: (1) interactions of employment agencies with other labour market actors, and (2) co-evolution of employment agencies and employment relations.

Theoretical framework

Institutions and institutionalism

Various institutional theories have been developed to analyse institutional transformations and institution-actor relationships, which can be applied to my analysis of how labour market institutions influence, and are influenced by, labour market actors such as employment agencies. As Amable (2003) puts it, "institutional change may take several forms. Agents may change their strategies under the influence of some exogenous change, change may stem from unintended consequences of actors' decisions, or it may result from conscious strategies aiming at institutional change" (11). My thesis focuses on the last two forms, which can be better framed by combining multiple theories that address different aspects of institutional development, instead of committing to one existing theory that can be too constricting or too broad. Before discussing my theoretical framework in the following sub-sections, I will first briefly introduce several institutional theories that I considered but did not apply for this particular research.

One comprehensive approach to studying economic institutions is *régulation* theory, which follows institutional transformation as a dynamic process of political, economic, and social relations and compromises (Boyer, 1990; Boyer and Saillard, 2002). It focuses on the diversity and evolution of institutions by analysing different institutional configurations (such as relations between

employment systems and financial systems[9]), as well as heterogeneous co-ordination between different levels of actors within each mode of institution (such as companies and workers in employment systems). Although this theory includes both of my analytical themes (evolution and interaction), it encompasses much broader social relations that are beyond the scope of this thesis. In order to focus on a specific economic actor (employment agencies), I applied the more narrowly defined theory of historical institutionalism and actor-centred institutionalism, which will be discussed in the following sections.

A more stylised and popular theory to explain economic institutions in Asian countries, especially Japan, is Hall and Soskice's (2001) *Varieties of Capitalism* (VOC). It identifies two distinct types of economies: the liberal market economy which promotes external labour markets (inter-company mobility), and the coordinated market economy which favours internal labour markets (within-company mobility). Following this theory, the Japanese economy may be viewed as undergoing a shift from a coordinated market economy towards a liberal market economy (Sako, 2012), but scholars have been unsuccessful at applying the VOC model to China's market structure (Witt, 2013). More importantly, like most rational-choice theories, VOC treats institutions as static structures and assumes the same rational behaviour of actors within the same given structure, which inadvertently runs the risk of overgeneralisation, and denies both the gradual evolution of institutions and actors' influence on such change.

Both *régulation* theory and VOC acknowledge that different types of capitalism are shaped by a country's institutional and organizational co-ordination. However, while VOC focuses on the static 'equilibrium' achieved by such co-ordination, *régulation* theory emphasises the 'disequilibrium' that drives constant institutional change. Blending the two approaches (i.e. economic modelling and historical analysis), Boyer et al (2011) identified five types of Asian capitalism using the *régulation* approach, and labelled Japan 'Innovation-led Capitalism' and China 'Continental Mixed Capitalism'. Another example of a combined approach is 'VOC in Asia', which adds historical and sociological perspectives to VOC by incorporating it into Developmental State theory (Hundt and Uttam, 2017). While these theories provide justifications for comparing Japan and China, 'compressed development' more specifically addresses the timing, speed, and patterns of labour market development based on both commonalities and differences, which is particularly applicable to my research and will be discussed further later in this chapter.

Another theory commonly referred to by historical studies of institutions is *path dependency*, which helps explain certain choices or processes of development, but would not be

[9] In particular, regarding employment relations, it highlights the structural complementarities among three forms of institutions: 'wage-labour nexus', 'monetary regime', and 'forms of competition' (Boyer and Saillard, 2002).

suitable for my research framework for two reasons. First, path dependency describes the evolution of institutions based on 'positive feedback,' or sequences of events occurring in a certain order, influenced by previous events, which means that once a path is determined, the choices of action become more and more limited over time. This is not equipped to explain the unpredictable, non-sequential, or uneven changes experienced particularly in China. Secondly, path dependency theorists argue that long-term effects are not caused by powerful actors but are "the by-products of social processes" (Pierson, 2004), negating the importance of variegated actors' motivations and behaviours that may push change into different directions, though they are central to my research.

Instead of committing to an existing theory commonly used for analysing economic institutions, I borrow concepts from two different institutional theories that have been developed by political economists and economic sociologists: historical institutionalism and actor-centred institutionalism. To supplement their lack of guidance for analysing economic development in Japan and China, I also applied a compressed development framework to specifically compare the two countries. The following sections will discuss these three building blocks of my research framework in detail.

Actor-centred institutionalism

One of my main research objectives is to spotlight employment agencies as increasingly significant economic actors, so my theoretical approach naturally begins with the consideration of 'actors'. Contrary to most institutional theories that are built to analyse the influence of institutions on actors, actor-centred institutionalism, as can be guessed from its name, is proposed to study interactions among actors, as well as institutional outcomes caused by actors. This approach is relatively new, underdeveloped, and thus interpreted in various ways by scholars, while sharing a basic emphasis on the roles of interdependent actors in the establishment of institutions. For example, game theorists focus on conceptualizing different types of strategic interactions among actors that lead to certain institutional outcomes (Scharpf, 1997); in policy studies, *discourse institutionalism* attempts to theorize how actors overcome institutional blockage and create new public norms through multiple stages of discourse (Schmidt, 2003); in organization studies, literature on *institutional work* and *institutional entrepreneurship* analyses how actors intentionally use their leverage to create or transform institutions to their advantage (Lawrence et al, 2009).

Among such variegated actor-centred approaches, I found the 'interaction-oriented' research framework suggested by Scharpf (1997) particularly suitable for introducing a relatively unfamiliar actor such as an employment agency. Compared to what he labels as "problem-oriented" research that aims to identify effective solutions to certain social problems, the goal of "interaction-

oriented" research is to study *how* and *why* different social or political characteristics are shaped, which is built upon the assumption that "social phenomena are to be explained as the outcome of interactions among intentional actors" (Scharpf, 1997: Introduction). In this framework, after identifying relevant actors, they are grouped as 'constellations' for analysing interactions within each group. Particular attention is paid to the preferences of actors for certain decision-making, which will be discussed in more detail later in this section. In general, when actors' motivations are aligned, they are more likely to effectively reach their desired institutional outcome, whereas when actors' motivations are in conflict, the decision-making process becomes more challenging.

Scharpf took a further step and proposed four distinctive modes of interactions, which are: unilateral action (in minimal institutions), negotiated agreement, majority vote, and hierarchical direction. Although I do not strictly follow this categorization, it is worth briefly mentioning the implications of the last mode, hierarchical direction, in which a powerful actor holds the capacity to enforce decision-making or to override the preferences of other actors. While actor-centred institutionalism mainly focuses on horizontal interactions of actors within a constellation, whether cooperative or non-cooperative, the mode of hierarchical direction points at the possibility of non-democratic interactions, or at least that not all actors hold equal power. This can be easily observed in interactions between an organizational actor and individual actor, such as employer's contractual authority over worker's behaviour (Simon, 1951), but as Scharpf points out, a well-functioning hierarchical direction is rare for interactions among organizational actors.

Nonetheless, there are two examples of hierarchical relations that are closely relevant to my research. One is Japan's vertically integrated *keiretsu* system formed during the country's high economic growth, in which layers of subcontracting companies supply the production to their large leader company. The other is the leadership of the Chinese central government, whose labour market strategies are followed by multiple levels of local governments, as well as business associations and labour unions run by them, and state-owned enterprises (SOEs) funded by them. Although many of my empirical findings may be explained by this power dynamic, what is more significant is the disintegration of the hierarchy and the increased influence from the bottom-up. For example, in Japan, the diversification of interactions among companies can be observed in the rise of independent subcontracting companies that serve any client companies regardless of *keiretsu*, a closer cooperation between parent and subcontracting companies for developing competitive products, and the more recent trend of reforming group companies under a new holding company. In China, new market-oriented reforms, including the flexibilization of the labour market, were carried out experimentally by local organizations, whose practical policy feed-back became

increasingly integral for updating central government strategies. Employment agencies are involved in all these changes, which will be presented throughout my thesis.

Actor-centred institutionalism's interaction-oriented approach is used mainly in chapter three to introduce relevant labour market actors to my study, and to locate employment agencies in relation to other actors. Within each 'constellation', interactions are analysed horizontally to capture mutual influence among actors, and particular attention was paid to their motivation and behaviour regarding 'non-standard' and flexible employment. Overall, the motivation to change the labour market into a more flexible form is relatively aligned across actors in China, in which employment agencies play significant roles, whereas in Japan, the conflicting motivation to promote a flexible labour market while maintaining employment stability limits the influence of employment agencies. By using this framework, I am able to compare a 'snapshot' of labour market actors in the two countries, mainly based on fieldwork findings, in an organized manner.

However, there are two main pitfalls to this approach. Firstly, most actor-centred studies are inductive, and focus on an actor's influence on "middle-range" institutions (Hampel et al, 2017), which are common practices or standards that constrain organisations or certain communities. Even when actor-centred analysis is conducted at the national or international level (for example, Hirsch and Bermiss, 2009; Helfen and Sydow, 2013), this approach is better equipped to trace the bottom-up process of forming a specific policy and its outcome (such as the policy drafting process of Labour Dispatching Law), or to identify the potential institutionalisation of new rules as "proto-institutions" (Lawrence et al, 2002; Zietsma and McKnight, 2009), than to explain larger-scale institutional transformation over a longer period of time (such as the decaying of 'standard' employment relations). Secondly, so far the applications of actor-centred institutionalism at a national level are concentrated on political studies in the US and Europe, and lack empirical support for analysing economic development in Japan and China. These pitfalls can be compensated for by combining actor-centred institutionalism with other research frameworks, namely *historical institutionalism* and *compressed development*, which I will discuss next.

Historical institutionalism

The views of historical institutionalism are best suited to trace the evolution of employment agencies and employment relations for my research. While many institutional theorists attempt to hypothesize actors' behaviour based on institutional settings, or institutional outcomes based on actors' behaviours, the core interest of historical institutionalism is in the origin and evolution of institutions themselves. Accordingly, one of the strengths of historical institutionalism is its consideration of institutional continuity and change. Static institutional 'models' assume a 'temporal

equilibrium' in which institutions are not prepared to change, with changes only occurring by 'exogenous shocks' leading to an emergence of new forms of institutions (Olson, 1982; Shepsle, 2006). In contrast, historical institutionalists not only emphasise the continuity of institutional features that exist before and after an abrupt crisis, but more importantly, incremental changes during a period of apparent institutional stability, which can add up to a significant transformation over time without exogenous shocks (Thelen, 2004).

More specifically, historical institutionalism finds the driver of incremental changes in the gap between the "ideal pattern" of institutional design and the imperfect, "real pattern" of its enactment (Streeck and Thelen, 2005: 14). Instead of theorizing that actors follow the same rules the same way, historical institutionalism acknowledges that even if a rule is set similarly, it may be implemented or interpreted differently by actors. For this reason, historical institutionalists consider institutions as products of a changing process caused by constant struggle, adaptation, and negotiation between institutions and actors. Particularly in chapters four and five, I apply the views of Streeck and Thelen (2005), who focused on "incremental change with transformative results" (9) created by continuous adjustments made to reconcile the gap between the expectation and reality of policy changes, and identified five patterns of gradual institutional transformation: *layering* by new and quickly growing institutions, *displacement* due to the rise of subordinate behaviour, *drift* because of negligence to adapt, *conversion* caused by reinterpretation from the bottom-up, and *exhaustion* or gradual breakdown when an institution reaches its growth limit.

These variegated patterns of institutional change can help compare the evolution of employment relations and labour market actors in Japan and China. Particularly, the gradual rise of 'non-standard' or flexible employment practices along with deregulation in Japan can be explained as an institutional *layering* onto the original norm of 'standard' employment, without defeating the existing core features of lifetime employment (Isogai, 2011). In fact, a 2009 survey showed that over 80% of firms intended to continue long-term employment, but would do so by altering the wage system to increase the ratio of performance-based pay, and by using 'non-standard' workers (Yamada and Hirano, 2011). In comparison, the rapid flexibilization of the labour market in China may be explained as an institutional *displacement* of the job security provided by the 'iron rice bowl' established during the planned economy era. The transformation was not only pushed by 'endogenous forces' but by the employment practices of foreign companies (Gallagher, 2005), which Streeck and Thelen describe as "displacement by invasion" (2005: 22). Moreover, by tracing incremental changes underneath apparent institutional stability that are otherwise neglected, historical analysis of institutions may help detect trends and more significant potential transformations at early stages, which I attempt to do at the end of chapters four and five.

When applying historical institutionalism to an empirical analysis, concepts of endogenous 'phases' or 'stages', referred to as "systematic process analysis" (Palier 2005: 130), are often used to trace a country's political, economic, or social transformation. For example, Levy (2005) traced liberalisation processes in France as institutional *layering* and *conversion* of an ultra-*dirigiste* phase and post-*dirigiste* phase, which relates to Palier's (2005) analysis of France's welfare system change from a 'path-dependent' to a 'path-shifting' policy phase. Deeg (2005) described the financialization of Germany as institutional *layering* of a new 'reform' phase onto traditional a 'postwar equilibrium' phase. More specific to my research, when tracing the historical development of labour markets in China, scholars commonly use major market policy changes as markers for new analytical phases, such as the 1978 'reform and opening-up' that prompted an uneven developmental phase, the 1995 National Labour Law signifying the beginning of a rapid marketisation phase (further accelerated after the 2001 WTO accession, marked by some as the start of globalisation phase), and the 2008 Labour Contract Law leading to a phase in which worker's rights are more emphasized.[10] Although less ubiquitous, similar analyses can be seen in Japanese labour market studies, wherein scholars have traced changes of labour dispatching laws by dividing them into a 'regulation' phase supported by the 1947 Employment Security Act, a 'deregulation' phase beginning with the 1985 Labour Dispatching Law, and a 're-regulation' phase prompted by the 2008 draft amendment of the Labour Dispatching Law.[11]

These examples suggest that while institutional changes undoubtedly occur gradually or incrementally, utilisation of 'phases' can effectively highlight *when* and *how* significant changes have occurred (Palier, 2005). In turn, emphasising significant changes with the concept of 'phases' can also help highlight the continuity of other aspects, which I will present in chapters four through six. Furthermore, the assignment of 'phases' should be *ex post* and case-specific, rather than being used as an all-encompassing theoretical framework (although many aspects of change inevitably reflect global economic trends, which can be better explained by the compressed development framework discussed later). Following these 'systematic process analysis' practices, after collecting fieldwork data, I found that the evolution of employment agencies can be roughly divided into three phases in both Japan and China based on major changes in their policies and practices, and more surprisingly,

[10] For example, see Xu (2009) for early development of employment agencies; Pringle (2011) for the changing roles of trade unions; Kuruvilla et al (2011) for the rise and fall of informal labour markets; Li (2015) for transformation of the labour dispatching industry. All authors traced China's labour market evolution in the phases discussed above.

[11] Although the scholars who conducted these legal analyses do not necessarily claim to be historical institutionalists, their approach of examining social contexts and actors' influence on legal changes resonates with the historical institutionalism framework. See, for example, Tsuru et al (2011); Saguchi (2018); Zou (2018); Matsuura (2019).

the timing and key characteristics of each phase generally matched in both countries, which will be also discussed in chapters four through six.

Another aspect of historical institutionalism that differs from other major institutional theories is that it generally excludes informal rules and cultural norms from their definition of institutions. For example, rational-choice institutionalism, sociological institutionalism, and actor-centred institutionalism all include both formal and informal rules in their definition of institutions.[12] Although some historical institutionalists acknowledge the role of unwritten practices, especially in countries where formal institutions are weak (Tsai, 2016), most studies are focused on "formalized rules that may be enforced by calling upon a third party" (Streeck and Thelen, 2005: 10). By using this narrow definition, historical institutionalists can circumvent one of their largest risks, which is the morphing of their analysis into a mere story-telling due to over-expansion of the research scope, because it is difficult to form a concrete theory based on a historic approach (Pierson, 2004).

In my research, I mention the significance of cultural or informal norms, especially as one of several influencers of an actor's motivation and behaviour, but I do not trace the evolution of culture as an institution, nor observe an actor's effort to change culture as an institution. However, some 'taken-for-granted' practices regarding employment relations are included in the discussion of labour market institutions, especially when addressing initial periods of change when formal rules and systems are absent, such as the early marketisation period in China when labour market laws and policies were underdeveloped. The main institutions, or formal, legally-binding rules, that I focus on in this thesis are employment policies set by the Japanese and Chinese governments, and employment agreements set among companies, workers, and employment agencies.

Combining two institutional theories

Both actor-centred institutionalism and historical institutionalism are open for, if not reliant upon, in-depth empirical studies. This is because their goals are not to establish any clear *a-priori* institutional 'models', and hence they do not have to reject facts that do not fit in. For actor-centred institutionalists, their framework will "only provide guidelines for the search for explanations" and is "dependent on empirical data that must be collected specifically for each case" because analysis can greatly differ depending on the set of actors chosen (Scharpf, 1997: 37). Historical institutionalism also enables more detailed examination of empirical evidence by focusing on an institution's

[12] For example, Scharpf (1997) defines institutions as "systems of rules that structure the courses of actions that a set of actors may choose [… which] include not only formal legal rules that are sanctioned by the court system and the machinery of the state but also social norms that actors will generally respect and whose violations will be sanctioned by loss of reputation, social disapproval, withdrawal of cooperation and rewards, or even ostracism" (38).

evolution rather than its effects, and helps capture the complexity of institutions and actors. In addition, most institutional theories, including the two approaches I employed, provide convincing justification for cross-country comparative studies, because institutions are mainly established at a national level. All these advantages optimise my retroductive research design for weaving back and forth between theory-building and data collection, as well as comparative case-study research methods, which will be discussed in the second half of this chapter.

Acceptance of diversified empirical findings also means that both actor-centred and historical institutionalisms bypass the conceptual debate regarding what governs an actor's decision-making, which is central to other major schools of institutionalism; while rational-choice institutionalism assumes that actors behave "entirely instrumentally" according to their political and economic environment in order to maximize their interests (Hall and Taylor, 1996: 12), sociological institutionalism emphasizes that actors are driven by cultural norms, or 'taken-for-granted' practices, that do not necessarily reflect material interests (DiMaggio and Powell, 1991). Although these two views are often presented in conflict, they are not necessarily mutually exclusive. As Little (1991) points out, a market-driven 'narrow economic rationality' should be combined with rational actions driven by social and cultural norms, which he refers to as a "broadened practical rationality" (38). Actor-centred institutionalists place heavy emphasis on analysing different aspects of actor 'preferences', including "individual and institutional self-interest, norms, and considerations of individual and corporate identity" (Scharpf 1997: 180). Historical institutionalists argue that actor's motivations may change along with institutions over time, and their practice is never exactly as expected.

These views allow realistic and holistic observation of actors' motivations and behaviours, and capture the co-existence of economic-driven and norm-driven behaviour among different layers of actors. As discussed above, my main focus is on the horizontal interactions among organizational actors centred around employment agencies, but some cases of conflicting motivations between an organization (organizational actor) and individuals (individual actor) who belong to an organization are also apparent in my research. For example, in my fieldwork, I witnessed cases of moral norm-driven company managers (individual actors) being reluctant to follow economic-driven strategies announced by the government or their companies (organizational actors), causing slow implementation of policies such as laying off employees. There were also cases of economic-driven self-interest of individual actors causing public scandals, resulting in their organizations seeking resolution through social norms by appointing new leaders and promoting agency workers to 'regular' workers, which in the long-run is also likely to benefit the organization economically. On the other hand, many companies experienced rapid business expansion due to the strong leadership of

motivated individuals, indicating that the aligned motivation of actors can accelerate the attainment of their desired outcome.[13]

Combining the approaches of both institutionalisms can help analyse the co-evolution of institutions and actors from multiple dimensions. In my research, this is most useful for tracing mutual influences between employment policies/policymakers and employment agency motivations/behaviour. Actor-centred institutionalism allows me to study policy drafting and outcomes by viewing policy makers as key labour market actors, and looking into their interactions with employment agencies and business associations during the policy-making process; following the approach of historical institutionalism, I can trace the change of employment policies and norms as a set of institutions, and analyse various creative ways in which employment agencies and large employers have influenced, interpreted, and reacted to such changes over time. Examples of how labour market actors respond differently to similar employment regulations in Japan and China such as labour outsourcing and dispatching rules, will be discussed throughout this thesis.

So far, both institutionalisms are most commonly used for political studies, but my research will add empirical support to show their applicability in economic studies. To list some other previously conducted historical studies of economic institutions, Kohli (2016) traced state-led industrialization of "late-developing countries" including Japan and China in comparison to African and Latin American countries; Culpepper (2016) brought attention to the changing power of business and its influence on policy; Thelen (2004) compared Japan's development of company-based internal training systems that form company-specific skills, to Germany's national system of forming transferable skills; Caraway et al (2017) highlighted the role of authoritarian legacies in labour market reforms, including the persisting "labour market dualism" that was institutionalised during China's planned economy era, and its reinforcement of today's inequality of job opportunities and social welfare benefits; Lechevalier (2014) traced the neoliberal transformation of Japanese capitalism, including the "re-segmentation of the labour market",[14] from the perspectives of actors' heterogeneity, co-ordination, and compromises between the early 1980s and late 2000s, which coincides with my analytical timeframe of Phases 1 and 2 discussed in chapter four. The 'compressed development' framework adds another dimension to these studies of institution-actor co-evolution, namely the timing of a country's economic development, which I will discuss next.

[13] Although it is not the main focus of this thesis, discussions on the influence of individual leaders can be found in the *institutional leadership* literature (for example, Selznick, 1957; Washington et al, 2008; Kraatz, 2009).

[14] This proposes that the rise of wage inequality in Japan should be analysed from three dimensions: job status, mobility, and the risk of unemployment (Lechevalier, 2014: 97). I will discuss Japan's labour market flexibilization, inequality, and new policies to address these issues in chapter six.

Compressed development

Co-evolution of institutions and actors theorized by the above institutionalisms resonates with the conceptual framework of compressed development proposed by Whittaker et al (2020) for comparison of economic development. In this framework, the general idea of institution-actor co-evolution is broken down into state-market co-evolution and organization-technology co-evolution, with these two sets of change influencing each other. It argues that co-evolution among these aspects has been shaping the characteristics of different historical eras and the experiences of a country's economic development. Countries that experienced rapid development and integration to the global economy in different eras are categorized as: *early developer* (1780s-1840s), *early-late developer* (1850s-1930s), *late-late developer* (1945-1980s), and *compressed developer* (1990s-).

Although Japan and China began their industrialization and modernization as an *early-late developer* (since Meiji era) and a *late-late developer* (since planned economy era) respectively, more relevant to my research is Japan's rapid economic growth as a *late-late developer* in the 1950s and 1960s, and China as a *compressed developer* in the 1990s and 2000s. In general, late-late development is associated with 'embedded liberalism' characterized by a vertically integrated mass production system under government protection, and strong institutional complementarities with 'standard' employment; compressed development is associated with 'neoliberalism' that supports horizontally networked global value chains, foreign direct investment, and flexible 'non-standard' employment. Moreover, once an institution is strongly established during the rapid growth period, it is difficult to change. In my research, this tendency can be observed in the limited influence of employment agencies due to Japan's persistent preference for 'standard' employment, in comparison to China's rapid flexibilization of labour markets in which employment agencies play significant roles.

Another important feature highlighted by the compressed development framework is the speed of economic development experienced by different countries. Overall, the later a country develops, the faster it develops, because it can take advantage of the experiences and products of earlier developers. Compared to the 'late development model' that more or less follows stages of industrial upgrading from import substitution to export-oriented, and from light to heavy to high-tech industry, compressed developers experience faster growth wherein these transitions occur simultaneously, reflecting the era of deregulation and globalization. Evidences of such 'uneven' development and the co-existence of 'old' and 'new' practices were observed throughout my fieldwork in China in comparison to Japan, which will be presented later in this chapter as well as in chapter three.

In sum, compressed development serves as the final piece of my theoretical framework, complementing the two institutional theories discussed above by providing more detailed conceptual guidelines for economic studies, and strong empirical support for comparison of modern Japanese and Chinese labour markets. The combination of these three approaches allows me to comprehensively tackle my main research questions and sub-questions, which will be discussed next. In addition, this eclectic framework can help provide explanations for my empirical findings such as: *Why did labour market flexibilization occur faster in China than in Japan? Why do employment agencies have stronger policy influence in China than in Japan? Why did labour market actors react differently to similar employment agency regulations in Japan and China?* These topics are addressed in the following empirical chapters, and summarized in the last chapter.

Methodology and Methods

The rest of this chapter will outline the methodology and methods for my research, which is organized around the following questions:

Main research question:

"How have employment agencies evolved in Japan and China, and what influence have they had on the evolution of labour markets and employment relations in both countries?"

Sub-questions:

- How were employment relations shaped during the high economic growth era in Japan and China, and how have they changed since?
- How have employment agencies influenced and responded to changes in employment practices in Japan and China?
- How have employment agencies influenced and responded to labour market policy changes in Japan and China?
- How do employment agencies interact with other labour market actors in Japan and China?

Epistemological and Ontological Considerations: Critical Realism

Epistemological and ontological claims are closely linked and difficult to discuss separately. In philosophy, the former concerns the question of what knowledge should be accepted as truth, and the latter concerns the question of what exists and how it exists in reality (Blaikie, 2004a). In

social science, these approaches are used methodologically to discuss the relationships between social structure and social agency. Crudely put, positivism (in epistemology) and objectivism (in ontology) take the position that social phenomena (or structures) exist as external facts, which influence the behaviour of social actors. In contrast, interpretivism (in epistemology) and constructivism (in ontology) support the idea that social phenomena are constructed depending upon the motivation and behaviour of social actors (Bryman, 2016: 24-31).

According to Lawson, the error of mainstream institutionalism and economics has been their positivist approach, or "closed system modelling" (1996: 407). This can be seen in the abovementioned rational choice institutionalism, which neglects the fact that actors are thinking about the system critically as they use it, and are causing changes through constant struggle and reinterpretation. More realistically, as Archer (1998) puts it, "agents both reproduce and transform social structures through their activities, whereas social structures both enable and constrain social action". This view is philosophically supported by critical realism, which stresses the interdependency or "reciprocal confirmation" of knowledge and practice (Sayer, 1992: 33). Critical realism's core idea of mutual influence between structures and agents, or between institutions and actors, resonates with the theoretical approaches of historical institutionalism and actor-centred institutionalism discussed in the previous section, which makes it suitable for my research.

Another reason critical realism suits my research is that it acknowledges the complexity of causal relations. It emphasises the "contingent" relationship between causes and effects by using the concepts of "causal powers" or "mechanisms" (which is an object's ability to perform functions), and points out that an object's ability may change over time or an objects may act differently under certain conditions, and it generally links with other causal mechanisms (also contingently) to produce results (Sayer, 1992: Ch 3). In my case, this view provides a philosophical justification to analyse *how* employment agencies have been co-evolving with employment policies, practices, and other labour market actors. It also allows the incorporation of a broader historical, political, and socioeconomic *context* without committing to the search for a fixed regularity and denying other possible causal relations. Gerring (2006) names this approach as "descriptive analysis" in comparison to "causal analysis", with the former being more compatible with case study methods discussed later in this chapter.

Research Strategy: Qualitative, Retroductive Approach

Qualitative research is defined in various ways by different scholars depending on their foci, such as research aims, scope of questions, data collection methods, data analysis strategy, and so on. In general, qualitative research is used to explain the *why* and *how* questions by analysing open-

ended information, and my research is qualitative in nature because I want to understand the deeper context of employment relations that are not visible from narrowly structured data analysis. Although qualitative research is commonly inductive, critical realists use two different explanatory logics: abduction and retroduction. Both of these approaches acknowledge the interdependency between theory and observation, but follow different processes. Abduction begins with observing every-day objects, following the causal chain to a more generalized concept, and finally arriving at a theory of social structure (Edwards, 2014: 17); retroduction begins with an observation of existing structures, but goes behind such observation to discover how, and by whom, they are produced (Blaikie, 2004b).

The advantage of the retroductive approach is that it not only allows researchers to move back and forth between building theory and finding data, but helps them consider the broader context in which an observed reality is formed. Applying retroductive strategy in my research, I first conducted a preliminary study of Japan's and China's employment relations as a set of institutions, and employers and employment agencies as a set of actors, following the theoretical and comparative framework discussed in the first half of this chapter. I tentatively hypothesized that employment agencies in both countries were becoming influential, pushing employment practices into a flexible direction, albeit more rapidly and significantly in China than in Japan. I then moved to a field study in the two countries, with a focus on employment agencies' histories and their interactions with other labour market actors. I periodically revisited my hypothesis and adjusted fieldwork strategies according to my findings until I reached satisfactory explanations.

Research Design: Comparative, Multiple-Case Study

Comparison is a reference tool for observing similarities and differences and can provide a deeper understanding of social phenomena, objects, or behaviours. Swanson argues that it is the basis for human reasoning, and that "thinking without comparison is unthinkable" (Swanson, 1971: 45). However, comparative study within qualitative research may become meaningless when unexpected findings make cases irrelevant to compare. To avoid such risk, I use the compressed development framework to identify 'constants' upon which my comparison is based, and to organize general comparable categories such as institutional development in different eras, the speed and sequence of development, and key players (Whittaker et al, 2020). As discussed in chapter one, Japan and China share enough similarities in cultural and economic history with which I can compare the formation of employment relations during the high growth era, their change since, and influential labour market actors.

A qualitative comparative design normally takes the form of multiple-case study, and I find Yin's (2014) Multiple-Case Study Procedure a helpful guideline for my research. Appendix B shows his three stages of case study method, from "Define and Design" to "Prepare, Collect, and Analyse", followed by "Analyse and Conclude". In addition, Yin points out that case study methods are best suited for 1) answering the *how* question, 2) when the researcher cannot control behavioural events, and 3) a contemporary topic, all of which my research applies to (2013: 9-14). This research design is consistent with the critical realists' retroductive approach by suggesting weaving back and forth between the "Develop theory" phase and "Conduct case study" phase. Moreover, the most common comparative study is cross-national research, which is consistent with my research framework of institutional theories and compressed development.

Case selection and initial contacts

Before entering the field, I planned to study four cases for each country. Based on previous research and company websites, I identified two employment agencies and two employers in each country. For employment agencies, I chose to visit Recruit in Japan and FESCO in China because they are the oldest and largest domestic employment agencies in each country. I also planned to study Manpower, the world's largest employment agency with a strong presence in both Japan and China, to compare the practice of foreign agencies in the two countries. Independently from employment agencies, I selected two large employers in each country to examine their use of employment agencies, and to triangulate the view of the employment agencies I would visit. I chose two private online retailing companies representative of a rapidly growing contemporary industry, and two publicly-funded research institutes representing the public sector that has been a bastion of 'traditional' practices. Each case was selected and contacted independently to gain objective views from each's perspective.

However, I ended up visiting many more companies than I had originally planned (listed in Appendix A), which was necessary for both analytical and logistical reasons. Most importantly, employment agency practices were more diverse than expected, especially in the field of 'non-traditional' services and internal labour markets. They varied according to size, clientele, location, business strategy, relationship with other agencies, and so forth, so I needed to visit more agencies, departments, their group companies, and subcontracting companies to gain a full picture. In China, I ended up visiting three cities (Beijing, Nanjing, and Shenzhen) after realising that these practices were highly regionalised. Relatedly, employers were using various employment agency services creatively according to their changing needs, the extent of which could not have been captured by merely visiting two large companies' HR managers in each country. Encountering this reality at an

early stage of fieldwork, I soon decided to reach outside my pre-selected cases and tried to visit as many companies as I could until the information I collected reached saturation.

Needless to say, it is crucial to make certain of each case's significance, representativeness, independence, and data availability when selecting cases for analysis. However, logistic considerations inevitably play a part in case selection, which can include a researcher's language ability, existing contacts, familiarity with the region, timeline, and so on (Gerring, 2006). Before finalizing the four pre-identified cases in each country, I attempted to send formal interview request emails to several organizations directly, but only received responses from their public relations departments. This was not ideal because I wanted to learn the practical perspectives of employment agencies' operations rather than generic, publicly available information. My interview targets were directors and managers who were in charge of human resources and business strategies. (I will discuss my elite interview procedures in the next section.) Among various employment agencies and large employers that could represent traditional versus contemporary, and public versus private industries, I finally decided on the abovementioned organizations because I was able to connect with their managers before starting my fieldwork. Two of them were introduced by Oxford professors, and the rest were reached through my friends and family in both countries.

The importance of third-party introductions to make connections and to increase the level of help one can receive is mentioned in various literature on conducting fieldwork (for example, Gordon, 2003; Bakkalbasioglu, 2020), and it was certainly true for my experience as well. Not only were all the successful contacts made via third-parties before fieldwork, but I also relied heavily on chains of connections acquired during fieldwork as I continually realised the need to visit more organizations. Further contacts were made through local acquaintances to reach new organizations independently, and through previous interviewees to expand the visits to other departments and branches within the company, or to its associated organizations such as group companies, labour unions, and business associations. In addition, particularly in Japan, I attended various seminars and events targeting employment agencies and company HR managers, at which I was able to make more personal connections and arrange more company visits and interview appointments. I will compare my personal fieldwork experiences in the two countries at the end of this chapter.

Evidence collection and analysis

Selecting multiple sources of evidence enables data triangulation and develops "convergent evidence," which strengthens the validity of the case study (Yin, 2014: 118-123). For this reason, I relied on three types of data collection during my fieldwork: semi-structured elite interviews, direct observation, and documents. By combining these findings, I was able to holistically learn the history

and practice of employment agencies from various actors' perspectives. All three sources of evidence have their advantages and disadvantages. Interviews are case-specific and insightful but can be biased and inaccurate. Direct observation provides a quick contextual snapshot but takes a long time to trace changes. Documents are stable but can also be biased and are difficult to access. In addition, researchers who have conducted fieldwork in Japan and China forewarn the tendency of companies to only show what they want to be seen (for example, Gordon, 2003; Harvey, 2011). Again, these risks can be reduced greatly by using multiple sources as convergent evidence, and by separately approaching interviewees.

Semi-structured elite interviews were my main fieldwork focus, because it was an effective way to gain knowledge from a wide range of practitioners and experts, and hence suitable for learning relatively unexplored topics such as employment agencies. While previous studies mostly interviewed agency workers to capture their precarious work conditions, I focused on elite interviews in order to study employment agencies and large employers as labour market actors. Although there were instances when managers' behaviours conflicted with company strategies as discussed earlier, elites are in general more representative of, or at least knowledgeable about, the organizations they lead (Darbi and Hall, 2014). By taking advantage of third-party introductions and by preparing a list of six to ten interview questions according to each interviewee, I was able to overcome two common challenges of elite interview, which are that elites are hard to reach and that they tend to take charge of the interview (Bakkalbasioglu, 2020).

Marshall and Rossman (1989) point out that the advantages of interviewing organizational elites such as directors and managers include their familiarity with their organization's policies, histories, plans, legal/financial structures, and relationship to other companies, albeit from their own perspectives. These conversations were exactly what I sought during my interview. In particular, oral history was essential to trace the little-documented early development stages of employment agencies, and to highlight memorable events and policy changes whose significance was not necessarily reflected in official records. By keeping the interview questions open-ended, I was also able to reveal various 'grey-zone' practices, informal interactions among actors, and personal dramas and rivalries. This information would have been difficult to obtain through direct observation and document collection.

Direct observation, however, played an important role during my fieldwork, because it provided me with a real-time snapshot of employment agencies' and their clients' operations. *Participant observation* has been used as a single-case study of an employment agency from a worker's perspective (Fu, 2009), but this approach can only cover a much narrower environment, and is time-consuming. Instead, I used direct observation to gain an overall view of the company,

and to identify key subjects that require further analysis. Because almost all interviews were held at managers' worksites, I was frequently offered brief tours, through which I witnessed various workers' behaviour and work environments. In addition, document shelves, posters, and notes written on white boards flagged many new keywords for me to pursue, which influenced my development of interview questions and document searches.

Documents can be a stable source of evidence because, unlike interviews and observations, they are not created for the purpose of a specific study (Yin, 2014: 106). Most company websites provide merely an overview of their products and services, company structure, and financial reports, but I managed to gather documents that were not available on the internet during my fieldwork. They included company leaflets used by sales people for cultivating new clients, presentation printouts used as part of consulting services, policy change notices sent by governments and business associations, internal training materials, contract formats, pricing lists, discontinued recruitment magazine archives, and so on. Most were obtained during my interview visits, and some were sent to me as part of follow-up conversations. These documents showcased how certain services and topics were presented to certain targets, which strongly represented the perspectives of the actor that created the documents, and provided insights into their motivations and strategies for reaching their goals.

When analysing this information, I followed the process of thematic analysis by categorizing similar findings to build more generalized concepts (Bryman, 2016: Ch 24-25). Unlike analytic induction or grounded theory strategies, thematic analysis allowed me to begin with existing theories, and enter my fieldwork with a general hypothesis and interview guidelines, following the view of critical realism. Fieldwork notes were taken by hand at sites, later transposed to OneNote, then exported to NVivo for data organization. However, in the end, what I relied on the most was manually following the basic retroductive approach and to repeatedly reviewing my notes and documents against research questions and tentative hypotheses. My messy, hand-written notes turned out to be the best tool for vividly recalling interview details.

Comparison of fieldwork experiences: *Stereotypical 'salaryman' in Japan, varieties of managers in China*

Although it was not my purpose before entering fieldwork, my fieldwork experience turned out to be a test and confirmation of an important feature of the compressed development framework; the experience was much more 'uniform' in Japan, but 'uneven' and 'mixed' in China. I suspect that this observation, especially of Japan, would not have been as strong had my interview targets been smaller companies or younger workers. However, I chose elites at large organizations

because they better represent actors that hold influential powers over the labour markets, and these leaders presented the persistent 'traditional' behaviour in Japan. In comparison, many managers in China, especially those in private sectors, have quickly adopted 'new' practices, yet at the same time, older government and SOE leaders appeared even more 'traditional' than those in Japan in many ways. These differences in employment agency practices will be discussed at the beginning of the next chapter, but in this chapter I will share my personal fieldwork experiences in Japan and China.

I noticed some differences even prior to site visits. As discussed above, I connected with most interviewees through third-person introductions in both countries. In Japan, all interviews were scheduled through emails that used certain formats and business language. A mutual acquaintance would briefly introduce me to a manager (potential interviewee) via email, then I would send a formal interview request to the manager with an attachment letter containing my research purpose and interview questions. The manager generally responded within three days, sometimes through a secretary, with two or three specific time slots about a week to one month ahead. After confirming the time and date, I would receive permission to access the company building, and a receptionist would inform me of which conference room had been booked for the interview upon arrival.

In China, on the other hand, my acquaintance would directly provide me with a potential interviewee's contact information, either verbally or through text/WeChat message. For younger managers and those at private sectors, I was generally given their WeChat ID, while for older managers at SOEs and governments, I received phone numbers. My initial contact with these managers was inevitably casual, because it was via short messages or phone calls. At first, I tried to explain my research purpose on the phone, or send my list of questions through text/WeChat message, but soon realised that it was not necessary; all they were interested in at that point was where I was staying, and if I would like to come by that same afternoon or sometime the next day. I met one manager who apologised to me that she would be on a business trip and would not be available for three days; this wait time was nothing compared to what I had experienced in Japan. Meeting times were often vaguely set, such as 'tomorrow afternoon' or 'around 10'. Upon arriving at the building's gate, I would have to call the manager again, and they would then send a younger worker to take me to their office.

The characteristics of the interviewees varied greatly between the two countries. Only three out of 25 interviewees in Japan were female, compared to 14 out of 49 in China. (I needed to conduct more interviews in China than in Japan to reach the same level of understanding, which will be discussed later.) In Beijing, female managers were mostly at private companies, whereas in

Shenzhen, they were in both private and state-owned enterprises. All but one interviewee in Japan wore suits, and although most of them were friendly, their formal 'business manners' were ingrained in their language and movements, including their polite greetings and beautifully angled bows. All interviewees in Japan had stayed with their companies since graduating from high school or university; any job change experiences to be had were either internal transfers to different departments, or transfers to group companies or affiliated public organizations (*'shukko'*), all of which were initiated by their employers.

Younger managers in China, especially at private companies, adopted the 'Western casual' style of wearing vibrantly colourful sneakers, sweat shirts, puffer jackets, and jeans. Many of them had backgrounds in IT, law, or overseas MBA degrees, and preferred to be addressed by their English nicknames. The level of wealth attained by some private company managers was evident in their ownership of Lamborghinis, condos in foreign countries, 50-year old *Mao-tai* whisky with personalized labels, and closed-membership of tea salons hidden in *huton* allies, just to name a few things I witnessed. On the other hand, SOE managers, especially those in Beijing, represented remnants of old institutions. They wore dark grey or navy jackets, preferred to communicate by phone calls, held science or engineering degrees, and gained jobs through government allocation. Their offices were full of cigarette smoke, dark furniture, and 'red' posters and booklets distributed by the Communist Party of China (CPC). An SOE executive complained to me that he was stuck in the old pay grade with an "increased pay cap" of 600,000 CNY (interview, CE3); another recently retired SOE vice-general manager lamented about his low retirement pay, even compared to the public servants at the same job grade as his (interview, CA12).

Conversations and visits with managers in both countries also went differently. The longer wait times for appointments in Japan were paid off by the interviewees' well-preparedness. They would allocate a dedicated time and place for my interview, usually an hour in a conference room, in which we were able to have a focused, uninterrupted meeting. Most of the managers were well-prepared for the interview, with PowerPoints, brochures, and in some cases, newly drafted documents according to my interview questions sent beforehand. However, being in an isolated conference room made it difficult to observe the overall picture of the company, so I would often ask for a company tour to get a glimpse of their open meeting areas, rest areas, and the interviewee's department office. In addition, because interviews were scheduled far ahead, it was difficult to pack my visits into a short time frame. In order to make good use of time between scheduled visits, I attended seminars and events targeting employment agencies and company HR managers, where I was able to make more personal connections. These meetings became

particularly fruitful because it gave me opportunities to 'pre-select' more potential interviewees among many attendees through casual conversations, before arranging formal visits.

In contrast, the pitfall of interviews happening more quickly and casually in China was that the managers were only able to answer questions they were personally knowledgeable about, and for this reason, I ended up visiting many more managers to gain the same level of information obtained in Japan. Upon meeting, I would hand the managers a printed copy of my interview questions that were rarely followed by them, yet remained a useful tool for me to keep the conversation on track, as they were prone to straying off topic. Because the meetings were held spontaneously and casually at the managers' offices, there were constant interruptions, both by other worker's visits and by phone calls, to which the managers gave priority and always answered. However, their lack of preparation unintentionally provided me with opportunities to observe their business operations. It was also common for the managers to defer to several co-workers or subordinates who were better able to answer my questions, which would often lead us to another office, and eventually a tour of the company. While I had to ask for company tours in Japan, many managers in China offered to show me around personally. Japanese interviewees would often bring a stack of documents to the interview unprompted, whereas I generally had to ask for them in China. Having compared my general fieldwork experiences between Japan and China in this section, I will discuss the fieldwork findings specific to my research in the following chapters.

Conclusion

This chapter outlined the building of my research framework. Theoretically, I combined historical institutionalism, actor-centred institutionalism, and compressed development to compare multiple aspects of employment agencies, including their co-evolution with labour market institutions, interactions with other labour market actors, and patterns of development. An ontological view of critical realism was applied to design a retroductive, comparative, multiple-case study, with an emphasis on empirical findings gained through fieldwork in Japan and China. With this holistic approach, I captured a general picture of this little-known labour market actor into a comparable 'snapshot' (chapter three), and traced their evolution along with the changing employment policies and practices (chapters four and five) in both countries.

Chapter Three: Interaction among employment agencies and relevant actors

Before diving into the historical journey in chapters four and five, and analytical implications of employment agencies' influences in chapter six, this chapter will provide a comparative snapshot of how employment agencies and relevant actors behaved in Japan and China at the time of my fieldwork in 2019-2020. In other words, in order to answer my research questions – evolution and influence of employment agencies – using the institutional approaches discussed in the previous chapter, it is crucial to identify relevant actors and observe interactions among them first. The actors that I studied most during my fieldwork were employment agencies and their clients (namely large employers), with particular attention being paid to *how* and *why* certain type of human resource-related services were offered by employment agencies, and were preferred by their clients. During this process, I also encountered other actors that were closely related to employment agencies, which might have been playing important roles in influencing employment relations and labour markets in Japan and China.

By listing relevant actors and their interactions, this chapter will serve as a stepping stone to a more direct answer to my research question in the following chapters. To this end, the first part of this chapter provides a contextual 'landscape' of the two countries by applying the 'compressed development' framework to my general fieldwork observations; overall, actors' behaviours were more 'uniform' in Japan and more 'uneven' and 'mixed' in China, depending on their locality, ownership, and personal connections. Then, borrowing actor-centred institutionalism's 'constellation' approach, the main part of this chapter is divided into five sections, with each section highlighting a different group of actors and their interactions within the group. Figure 3.1 summarises actors and the five sets of interactions I will discuss in this chapter.

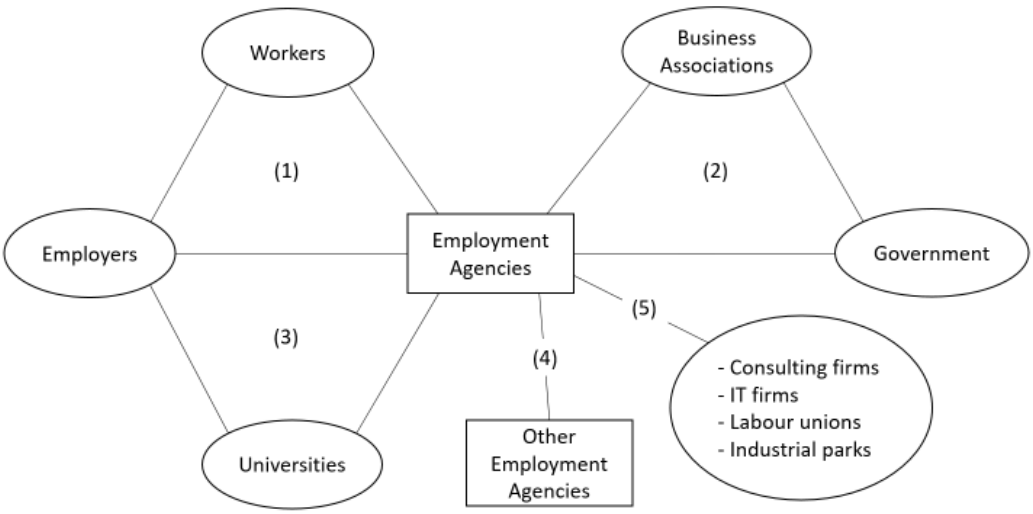


Figure 3.1: Actors, interactions, and corresponding section numbers

Landscape: ***Japan as late-developer, China as compressed developer***

The previous chapters introduced Japan and China as a '(late-) late developer' and a 'compressed developer' respectively. The former was associated with vertically-integrated industrialisation, social protection, and 'standard' employment, whereas the latter adopted horizontal 'network' business models, deregulation, and the rise of 'non-standard' employment (Whittaker et al, 2020). Following this framework, I will first highlight some corporate, social, and technological characteristics in Japan and China that are directly relevant to my 'interaction-oriented' analysis centred on employment agencies in this chapter. The observations are predominantly based on my fieldwork.

Firstly, companies were more willing to incorporate employment agencies into their production processes through labour outsourcing in China than in Japan. In 'compressed development' terms, this was the result of China's quick adaptation to a network economy, global value chains, and financialization. In fact, many Chinese companies I interviewed were constantly adjusting what work should be performed in-house versus what can be outsourced. For example, in the case of large Chinese manufacturers, some of their factories were staffed with their 'regular' workers, and other factories were staffed with 'agency' workers, who may be supervised by 'regular' workers or 'agency' workers. In the case of the two IT giants I visited, they both shifted from hiring in-house programmers to outsourcing programmers during the early 2010s, but one of them went back to hiring in-house in 2018, whereas the other continued to outsource through employment agencies (interview, CE4; CE5). Employment agencies were paid *per project* for providing these labour outsourcing services.

Project-based subcontracting and outsourcing arrangements were also common in Japan, but unlike in China, they usually did not involve employment agencies. Instead, large manufacturers in Japan established their subcontracting relationships with smaller factory owners during the industrialisation period, and have maintained such arrangements for the most part. Using employment agencies to staff an entire factory is rare in Japan; in most cases, 'agency' workers were hired in addition to the 'regular' factory workers as a temporary adjustment to workload fluctuation, or to introduce a new skill set that 'regular' workers did not possess. In Japanese IT companies, programmers were considered core 'regular' workers, and similarly to manufacturers, employment agencies could dispatch a programmer for workload adjustment or as some sort of specialist. In any case, employment agencies that provided these workers were paid *per worker*. These different contractual arrangements among employment agencies, workers, and employers contribute to distinctively different labour market outcomes between Japan and China, which will be discussed further throughout this thesis.

Secondly, uneven access to education and social security as a result of 'compressed development' differentiates the Chinese labour market from Japan's, and provides more opportunities for employment agencies to operate in all layers of labour markets. For example, less than 40% of Chinese workers recieve social insurance, which is their public social security system, co-funded by employers; this ratio of social insurance coverage is estimated to be even lower for migrant workers, at less than 20%, even though most of them work full-time and hence should be eligible (Wang, 2011). In addition, only about half of all middle school students can go to regular high schools in China (Woronov, 2016). Combined with the *hukou* system, a legacy of the planned economy era preventing workers from migrating freely, this means that those without urban registration, higher education, or social security form a large pool of 'cheap labour' and are likely to seek employment agencies for work and welfare opportunities, even when it leads to exploitation. Consequently, employment agencies in China are able to utilise this abundant 'cheap labour' to provide the abovementioned project-based services on a large scale, and more recently, develop welfare services for these workers.

On the other hand, Japan is facing a labour shortage, especially of so-called 'low-skilled' workers, not only because of the decline in overall workforce due to an ageing demographic, but also because the majority of blue-collar workers were incorporated into the 'standard' employment system in the 1960s, which has since remained the norm. Companies needed to look outside the 'regular' working population to fill non-core work positions, and began hiring more females, students, and retired employees as temporary 'dispensable' workers. Employment agencies played an indirect role in this process by promoting a positive image of 'non-regular' workstyle, but in terms of direct involvement with employers, Japanese employment agencies mostly supply individual workers through job intermediary and dispatching services, and are less likely to take on large-scale, project-based businesses commonly seen in China.

Thirdly, to expand on my personal experiences discussed in the previous chapter, 'mixed' technological upgrading was observed throughout my fieldwork in China. As a result of 'compressed' development and IT revolution, the use of communication technology varied among actors in China. Older government workers and SOE managers preferred the 'good-old' phone calls and exchanged WeChat IDs upon meeting; younger managers preferred messaging via WeChat even before the first in-person meeting. No managers used email as the main communication tool, as though this technological step has been bypassed. This 'mixed' use of technology was also observed in the ways employers and employment agencies found workers. When they looked for white-collar workers, they relied on web advertisements, but when they looked for temporary manual workers, especially from rural areas, they relied on in-person hiring events and WeChat groups. It seems that rural

workers moved directly from in-person to social media communications via smart phones, skipping a significant stage of technological upgrading, namely the use of computers, websites, and emails, which were the 'standard' communication means throughout Japanese businesses. All of my interviews in Japan were arranged via emails following a 'standard' business format. These business manners are part of the initial training for new-hires in Japanese companies, and are followed across the country. When an employer or employment agency looked for workers, they relied on web advertisements regardless of the job type.

Having listed the most notable differences observed between the two countries, I will now briefly point out commonalities between large Japanese companies and Chinese SOEs, in contrast to large Chinese private companies. Large Japanese companies and Chinese SOEs shared the same priority of maintaining long-term relations with existing clients over cultivating new ones. However, these relations may be more inter-organizationally based in Japan and inter-personally (*guanxi*-) based in China. In Japan, many companies gave priority to agencies within the same *keiretsu* group with which they were affiliated. In China, executives of various SOEs became personally acquainted with each other through study groups and meet-ups organized by both the national and local governments. On a more operational level, Japanese workers were accustomed to the internal reallocation system and handing off of clients to their successors, whereas managers in China complained about losing clients because the person in charge left the position. Large employment agencies in Japan and state-owned employment agencies in China placed emphasis on long-term client maintenance, whereas private agencies in China, including the large ones, were more eager to search for new clients.

Not only in client-relations but in employment relations, the preference for long-term stability and the persistence of existing institutions were prevalent in both large Japanese companies and Chinese SOEs. Lifetime employment and the seniority-based (*nenko*) wage system remained the norm in Japan, and any 'work-style reform'[15] made stayed within the existing norm, such as increasing the ratio of performance-based pay on top of the seniority pay for those who worked more than five years. Many SOEs in China were struggling to transform out of the *iron rice bowl* employment that provided a high level of welfare and security, with some continuing to apply a

[15] At the time of my fieldwork in Japan, the government had just introduced 'work-style reform' (*hatarakikata-kaikaku*) in order to tackle 'diversified needs' and 'worker shortages' in the labour market. (Official website at https://www.mhlw.go.jp/hatarakikata/index.html, retrieved 10 June 2021.) However in reality, all this meant for large companies was to re-visit their internal wage and work hour system. Nonetheless, many HR managers in Japan were interested in this timely topic and provided me with their specific wage revision plans. I will discuss more details in chapters four and six.

modified version of pay grade system established during the planned economy era.[16] In contrast, large private companies in China (and although not my main focus, foreign companies in both countries) offered more market and performance oriented employment arrangements, generally with higher wages but lower welfare and security. Students may choose their employers depending on their inclinations toward stability versus immediate large income, but large employers are nonetheless all very popular, and have all learned to outsource part of their recruitment process to employment agencies in both countries.

Bluntly put, labour market actors in Japan showed somewhat 'uniform' behaviour within the persistence of institutions favouring long-term stability, whereas actors and institutions in China were more 'mixed' and 'uneven' with a co-existing of 'old' and 'new' practices. These differences reflect on the variegated corporate strategies and the role of employment agencies. Overall, because of the strong 'standard' employment norm in Japan, employment agencies, along with 'non-regular' workers, were playing supplementary roles to directly or indirectly support and protect the status of 'regular' workers. However, the transitioning Chinese government and SOEs, coupled with rapidly emerging private companies, provide opportunities for employment agencies to act dynamically and creatively, and to be incorporated into employers' core strategies.

This contrast can be explained by different institutionalism frameworks. In historical institutionalism terms, the gradual growth of employment agencies in Japan, along with 'non-standard' employment, can be explained as institutional *layering* onto the original norm of 'standard' employment, without defeating the existing core features of lifetime employment (Streeck and Thelen, 2005; Isogai, 2011). The dramatic increase of employment agencies in China, along with SOE reform and privatization, may be explained as institutional *displacement* of the planned economy (Streeck and Thelen, 2005). In actor-centred institutionalism terms, the *conflicting intention* between employment agencies (who want to promote a flexible labour market) and employers (who want to maintain 'standard' employment) in Japan inhibit market change, whereas the *aligning intention* between the two actors in China (in addition to the 'hierarchical direction' by the government) to 'flexibilize' the labour market accelerate change to their desired outcome (Scharpf, 1997; Cooke and Brown, 2015). All frameworks, including the 'compressed development' terms I referred to in this section, point out that once institutions are established, and once actors have settled to their institutional settings, change becomes more difficult.

[16] The legacy of the pay-grade system was more apparent for upper management and executives, as well as older workers who were hired before 1995, when China's first National Labour Law introduced a labour contract system.

'Interaction-oriented' analysis on employment agencies

In the 'interaction-oriented' approach, research foci include actors' intentions, their horizontal or hierarchical relations, and how they resolve conflicts. Analysis of actors' interactions is applied in various institutional studies, but is the key feature of actor-centred institutionalism. Moreover, in an actor-centred institutionalism framework, actors are grouped and analysed as 'constellations'. The first and most obvious in my research is the 'triangular' relationship among employment agencies, workers, and employers, which will be the main portion of this chapter (section 1). I will also discuss other 'constellations' of actors identified during my fieldwork, which are: (2) 'triangular' interaction among employment agencies, business associations, and government, (3) 'triangular' interaction among employment agencies, universities, and employers, and (4) interaction among employment agencies themselves. Lastly, I will briefly list other relevant actors, including labour unions, consultant companies, IT companies, and Chinese industrial parks (section 5).

A summary of the key fieldwork findings that I discuss for each section in this chapter can be found in chapter six, Table 6.1. In addition, Figure 3.1 at the beginning of this chapter illustrates the actors and interactions I explore in this chapter, and numbers each actor 'constellation' accordingly. At the beginning of each section, I will re-introduce this figure with the relevant group of interactions highlighted in bold lines.

(1) 'Triangular' interaction among employment agencies, workers, and large employers

The previous chapters have defined employment agencies as connectors between workers and employers, and by now the importance of analysing this triangular relationship should be clear. The first portion of this section will introduce the four general types of employment agency services, categorized by their legal and contractual arrangements regarding fees, wages, and supervision: intermediating/headhunting, advertising, dispatching, and subcontracting/outsourcing. Although legal structures are similar in Japan and China, employment agencies behave differently in practice. Other than advertising services, intermediary and dispatch services were most common in Japan, whereas labour outsourcing was the most common agency practice in China. The second portion of this section considers factors that contribute to this difference from the perspectives of employment agencies and their clients (large employers), such as worker availability, motivation for flexible employment, level of legal knowledge, monitoring practice, and ease of violation. After highlighting the differences in labour provision services, the last portion of this section will briefly touch upon the growing 'non-traditional' services with a focus on major services that may be influencing the large employers' internal labour markets.

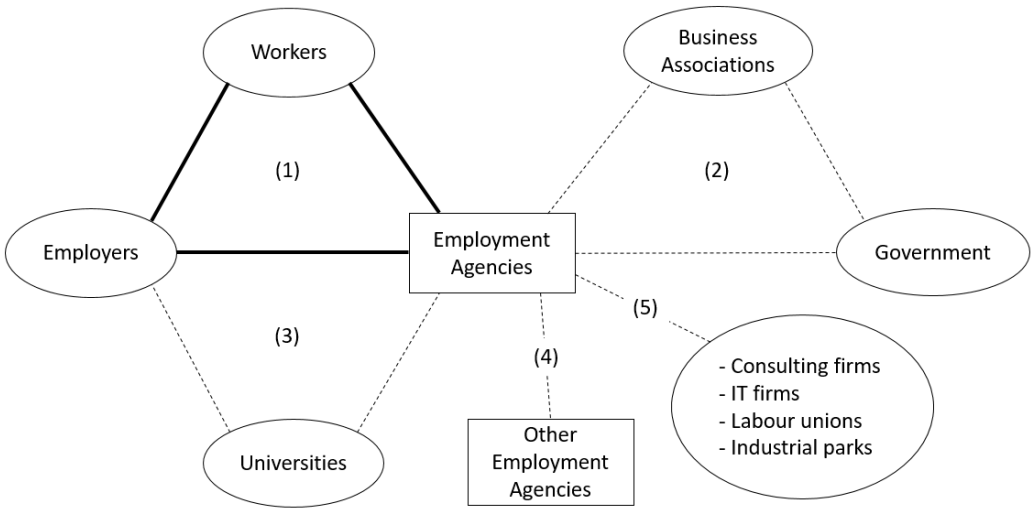
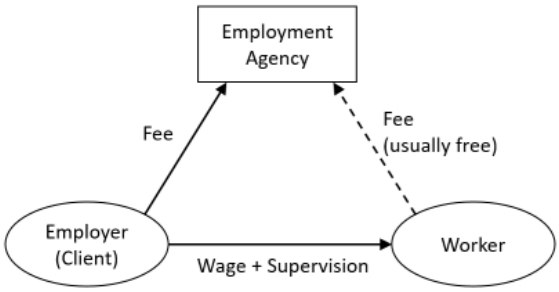


Figure 3.2: 'Triangular' interaction among employment agencies, workers, and large employers

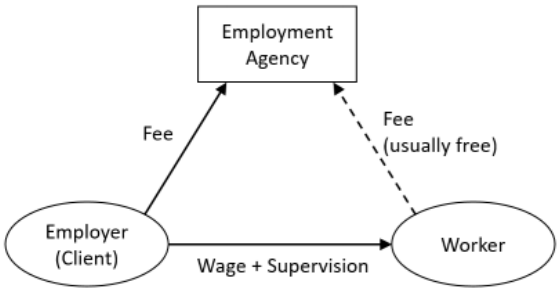
Four types of employment agency services

Figure 3.3 summarizes the four types of 'triangular' business arrangements among employment agencies, workers, and employers, based on fees, wages, and supervision. For *job intermediary* and *headhunting* services, client firms (or employers, from the worker's perspective) pay one-time fees to employment agencies to find a desired worker with whom the client firms sign direct employment agreements. Strictly speaking, intermediary and headhunting services can be differentiated by how agencies find workers; while intermediaries find workers within the pool of job seekers who registered with the agencies, headhunters look for workers throughout the entire labour market (Kameshima, 2015). However, this division is not clear-cut, because intermediary agencies sometimes need to look outside of their worker pool, and headhunters usually start their search within a database of registered job seekers. In practice, so-called 'intermediary' agencies handle a wide range of employment, and are relatively more worker-oriented with an emphasis on 'finding the right employer for the workers'. In contrast, employment agencies tend to call themselves 'headhunting' agencies when they target high-skilled professionals, with an emphasis on 'finding the right worker for the clients'. The former is more common in Japan, whereas the latter is more common in China.

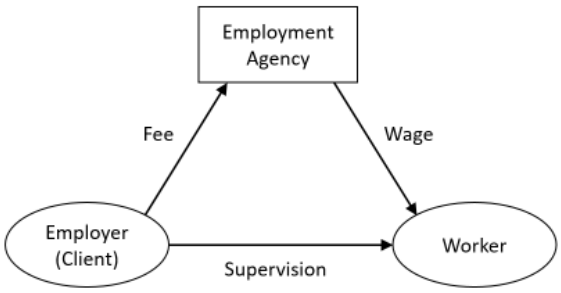
Intermediary/headhunting



Advertising



Dispatching



Subcontracting/outsourcing

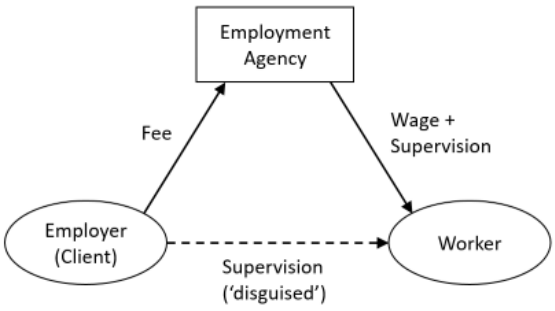


Figure 3.3: Four types of 'triangular' relations among employers, workers, and agencies

For recruitment *advertising* services, client firms pay advertising fees to employment agencies to post recruitment information via their media where job seekers can apply directly or through the agency. The fee structure may seem similar to that of intermediary arrangements, but unlike intermediaries and headhunters, employment agencies do not have any hands-on involvement in finding specific workers or employers, but merely provide a venue for them to post and view recruitment information. Originally, advertising agencies in Japan and China charged a fixed-fee for their client firms to post recruitment information, and along with digitalisation, required workers to register with the agency to apply for the posted jobs. This practice is still the most common, but the influence of more recent 'platform' business can be seen in both countries, where client firms are charged 'per click' or 'per application' instead of a fixed-fee, and job seekers have the option of applying without registering with the agency.

In a *dispatching* arrangement, the workers sign contracts with dispatching agencies, from whom they receive wages and benefits, but work under the supervision of different employers (or 'client firms' from the agency's perspective) who pay fees to dispatching agencies for the workers they receive. A large amount of literature has been written on the labour dispatching system, most of which was for legal studies and labour studies with a narrative of deregulation, exploitation, and

precariousness.[17] As will be discussed later in this section, despite strict regulations and negative public images, labour dispatching services remain a major businesses in Japan, whereas in China, employment agencies have shifted their business arrangements into less regulated fields, and dispatching is now considered a 'traditional' service.

In a *subcontracting* and *outsourcing* arrangement, the workers sign contracts with subcontracting and outsourcing agencies from whom they receive wages, benefits, and supervision. Although there is no standardised way to differentiate subcontracting and outsourcing,[18] employment agencies label themselves more often as 'subcontracting' (*ukeoi*)[19] agencies in Japan and 'outsourcing' (*waibao*) agencies in China. However, their business arrangements were the same in practice, and these two terms can be used interchangeably for my research purposes. Therefore, in this thesis I will simply follow how employment agencies label themselves. More importantly, labour outsourcing can be categorized into 'traditional' labour provision services (which are the four service types described in this section), and more recently developed, strategically involved, higher-skilled service provisioning (such as consulting, training, and recruitment process outsourcing); the former has been active in external labour markets, and the latter has influenced internal and 'quasi-internal' labour markets. The evolution of these services will be traced in the following chapters.

Comparison of labour provision practices

Having introduced the four main 'triangular' relationships among employment agencies, workers, and employers, the rest of this section presents my major empirical findings regarding how and why these different business arrangements were used in Japan and China, from each actor's perspective. Table 3.1 summarizes the differences in scale for each service type, in terms of the number of workers hired through each service and the number of employment agencies registered to provide each service.

Most notably, the preferred types of services were different in the two countries. Other than job advertising services, dispatching was the most popular in Japan whereas outsourcing was the most popular in China. The maintenance of intermediary and dispatching services in Japan and the

[17] For example, see Fu (2011) on Japan, Feng (2018) on China, and Zou (2018) on legal comparison of the two countries.

[18] For example, the differentiation between subcontracting and outsourcing can be based on their associated era, late development and compressed development respectively. In addition, some employment agencies in Japan referred to the 'Hanada model', which differentiates subcontracting and outsourcing based on four categories: internal planning/internal operation (e.g. labour dispatching), internal planning/external operation (e.g. subcontracting), external planning/internal operation (e.g. consulting), and external planning/external operation (e.g. outsourcing) (Komiya, 2007), although this categorization was not clearly followed in practice.

[19] The term 'subcontract' can also be translated as *shitauke* in Japan, which is more size- and industry- specific. The more general translation, *ukeoi*, better describes employment agency services.

rapid expansion of labour outsourcing in China can be attributed to the following observations. From employment agencies' perspectives, the difference between worker-based services (such as intermediation and dispatching) and project-based services (such as subcontracting and outsourcing) was unclear in practice, especially in China. The abundant 'cheap' labour and the widespread business usage of social network services in China, described in the previous section, enabled Chinese agencies to gather groups of workers quickly and cheaply, and this practice was common even for worker-based services. As a result, many Chinese employment agencies were able to smoothly shift to project-based outsourcing practices after the 2008 Labour Contract Law in order to avoid its stricter regulations on dispatching. However, because of the overall labour shortage in Japan, Japanese agencies needed to reach out to workers individually, and hence could not easily switch between worker-based and project-based labour provision. As will be shown in the next chapters, when Japanese agencies experience stricter regulations, they tend to try to navigate within the legal system through manipulation and re-interpretation, instead of avoiding the regulation by shifting to different service arrangements like Chinese agencies.

Table 3.1: Scale of four main service types in Japan and China

Service type	**Japan**		**China**	
	Number of workers hired (annual, 10,000)	Number of agencies (permit holders)	Number of workers hired (annual, 10,000)	Number of agencies (permit holders)
Intermediary/ headhunting	70	25,099	130	n/a
Advertising	276	n/a	9,852[20]	n/a
Dispatching	184	38,040	893	283,493
Subcontracting /outsourcing	59	n/a	>4,204[21]	2,578,356

Data compiled from multiple government sources, 2017-2019[22]

As it was easier to find workers than clients in China and *vice versa* in Japan, employment agencies were more client- and group-oriented in China, but worker- and individual-oriented in Japan. For example, employment agencies I interviewed in Japan invested in advertising for gaining

[20] Estimates made based on government record of about 308 million job advertisement posts on Chinese agency websites in 2017 (Sun et al, 2018) and advertising agency manager interviews (2019) stating that they had about a 32% matching rate.

[21] This number (extracted from Sun et al, 2018) excludes migrant workers, who form a significant worker pool for labour outsourcing in China, therefore I expect the actual number to be much higher.

[22] Sources on Japan: Press Release on job intermediary business report (MHLW, 2019a); Press Release on labour dispatching business report (MHLW, 2019b); Survey on Employment Trends (MHLW, 2019c) for statistics on advertisements; and General Survey on Dispatched Workers which included subcontract worker statistics (MHLW, 2017). Sources on China: Blue Paper of Human Resources Service Industry (Sun et al, 2018); China Labour Statistical Yearbook (Xu et al, 2019).

workers but not clients, whereas Chinese agencies spent more on advertising for gaining clients but not workers. While Japanese agencies held personal meetings with all the workers registered with their intermediary and dispatch services to help them find employers, Chinese agencies only contacted registered workers when they had a job for them, and often contacted them through WeChat groups. Moreover, when describing their workflow, most Japanese employment agency managers started their timeline from a *worker* registration, while all Chinese managers started from a *client* request. These tendencies coincide with the maintenance of intermediary and dispatch services in Japan and the development of subcontracting, outsourcing, and headhunting services in China.

From employers' perspectives, the motivation to 'flexibilize' the labour market was stronger among Chinese managers than Japanese managers. Most examples I collected on large employers' use of employment agencies in Japan showed that their purpose was to find workers with very specific skills, such as social security planners, certified managing engineers, and re-insurance underwriters. These professionals were introduced by job intermediary or dispatch services as a supplement to the existing 'regular' workers. In addition, less popular employers who could not attract enough direct job applications from fresh graduates used employment agencies to find mid-career 'regular' workers who were willing to stay long-term, and could be trained in-house. In all cases, Japanese employers were using employment agencies to maintain their 'standard' employment. Contrarily, although large employers in China also experienced an increased need for specialized workers, they utilized headhunting services more than intermediary and dispatch services to find them. In addition, all managers at large employers in China named labour outsourcing services as their top usage of employment agencies, followed by headhunting services. SOEs were pushed by the government toward privatization and marketization, and large private companies were leading in digitalization and globalization. Within such a fast-changing environment, flexible employment, especially labour outsourcing, was favored by most managers in China because it was viewed as a logical way to increase productivity and reduce costs.

The abovementioned functional division between worker-based and project-based services was also observed from the large employers' perspective, more strongly in China than in Japan. Functionally speaking, the employers' priority was to get the right worker quickly and cheaply, and it was less important to differentiate the types of agency services through which they gained the workers. Nonetheless, all 25 company managers I interviewed in Japan were familiar with the four types of service structures, and some of them provided me with specific examples of how they used each service. In contrast, only one manager at large Chinese employers was knowledgeable about the difference. The most common answer I received from all other managers was that they were

aware of the ratio of direct hires and non-direct hires[23] but did not know if these non-direct workers were hired through dispatching or outsourcing arrangements. Moreover, to my surprise, over half of the managers at employment agencies in China, including some of the largest ones, could not explain the difference either. Instead, each agency was following their own functional division according to their specialties,[24] showing that the four legal divisions do not necessarily reflect the practical development of employment agencies in China.

In addition to the abundant 'cheap' labour, employer's support for flexible labour, and lack of legal knowledge listed above, the policy makers' motivation to promote the outsourcing industry, lack of motivation to monitor violations, and ease of violation may also have contributed to more employment agencies providing outsourcing services in China. The unclear differentiation between worker-based and project-based services was especially problematic in separating dispatching from subcontracting/outsourcing practices. In both countries, I encountered cases where employment agencies signed subcontracting or outsourcing contracts with their clients, which required employment agencies to supervise workers, but in practice, these workers were supervised directly by the clients, which resembled dispatching arrangements. In other words, taking direct orders from clients was not legally allowed for subcontract/outsource workers in both countries but in reality was done anyway. This practice was called 'disguised subcontracting' (*gisou ukeoi*) in Japan and 'fake outsourcing, real dispatching' (*jia waibao, zhen paiqian*) in China. As it was more common for employment agencies to provide outsourcing services in China, I encountered more of these cases in China than in Japan.

The 'disguised subcontracting' practice in Japan was observed mostly in IT services, and the problem was limited to the abovementioned supervisory relations. According to managers at Technopro, one of the largest engineer dispatching agencies in Japan, supervisory boundaries are often overstepped when agency workers are sent directly to clients' offices, as opposed to a separate job site such as a factory or construction site. To mitigate confusion, Technopro only provided IT workers via dispatching arrangements so the dispatched workers could receive direct instructions from the clients, but some smaller agencies would send IT workers via subcontracting arrangements with no means to prevent the workers from taking direct instructions from clients, even though they were not allowed to do so. The managers at Technopro jokingly complained that their biggest competitor was not necessarily other large employment agencies but IT subcontracting agencies and their workers behaving like individual freelancers. For this reason, unlike many other

[23] At the employers I interviewed, non-direct employees ranged between 10-30%.
[24] For example, Ciic categorized their services as HR outsourcing (including labour provision), headhunting and BPO (business process outsourcing), training, HRM consulting, and international HR services.

agencies, they did not support deregulation but advocated for a stricter legal system to oversee employment agency practices.

The mix-ups in supervisory relations were even more common in China. Most employers were unaware of the problem, and the only SOE manager who was familiar with supervisory rules admitted that many of their factory workers worked in 'grey' areas because they were outsourced, but perhaps were taking direct instructions from SOE supervisors. More seriously, I encountered several cases of contract violations leading to worker exploitation, where employment agencies signed an outsourcing contract and received fees for a certain number of workers, but in reality, hired less workers to perform the same amount of workload. A few private employment agency managers informed me that on their estimates submitted to clients, it was a common practice to claim about 20% more workers than the number they would actually hire. This created a vicious cycle as clients became aware of the practice and began to pay smaller fees, resulting in each worker taking on more workload for less pay.

Based on Japanese and Chinese government documents, policy makers may seem eager to mitigate 'disguised subcontracting' and 'fake outsourcing', but in reality, they were ineffective and even unmotivated in some cases. In Japan, auditing supervisory relations was only conducted when a violation was reported, and catching it in action was rare for IT services. A business association manager informed me that because IT industries rarely lead to heavy injury and worker's compensation, the government is less motivated to monitor them compared to, for example, the construction industry. In China, policy makers I interviewed were well aware of the problem, but considered monitoring supervision and headcount violations impractical. Rather, they were following the Chinese government initiative to promote the labour outsourcing industry and observe how the industry would develop, in which case strict auditing would hinder these goals. The lack of monitoring in China was also confirmed by the fact that many employment agency managers did not know the legal difference, and that the abovementioned SOE manager was not concerned about their potential violation even though he was aware of it.

Comparison of 'non-traditional' services

The above examples focus on the 'traditional' role of employment agencies, which is to provide workers for employers, but it is also worth noting their 'newer' role as, to borrow an agency manager's description, a "comprehensive human resource solution provider" (interview, CA2). In addition to labour provision, a wide range of human resource related services were provided by employment agencies in Japan and China, including consulting, training, recruitment process outsourcing, software development, and for smaller employers, internal human resource

management outsourcing. These services were more strategically involved and have been increasingly influencing internal and 'quasi-internal' labour markets in both countries, more actively in China than in Japan.

Human resource-related consultancy and training were some of the major 'non-traditional' services in both countries, with potential to influence their internal labour markets. Topics on these services I encountered during my fieldwork include HR strategies for recruitment, wage systems, internal (re)allocation, worker evaluation, welfare, work-life-balance, and technology. Overall, consulting was more popular in China, whereas training and seminars were more popular in Japan. For example, in China in 2017, over 2 million employment agencies listed HR consultancy in their business descriptions[25] and about 300,000 training and seminars were hosted by employment agencies (Sun et al, 2018). Of all the managers I interviewed at large employers in China, most of them had used consulting services provided by employment agencies, but only two managers had attended agency-organized training, and they were co-hosted with the local government.

In Japan, a manager at Recruit Management Solutions (RMS), a group company of Recruit which specialises in 'non-traditional' services, informed me that their largest 'non-traditional' business was 'training', followed by 'assessment', then 'consulting'.[26] From the employer/client viewpoint, consulting was used for the decision-making of companies, departments, and branches, and as will be discussed later in this chapter, US-based consulting companies were generally preferred in Japan. However, managers in Japan were able to attend training and seminars at their individual discretion. One HR manager informed me that he received multiple invitations for training and seminars from various employment agencies daily, and he would decide his attendance not only based on the topic but more importantly, based on the employment agencies with which he felt the need to maintain a relationship. It seemed that training and seminars were more casually and frequently hosted and attended in Japan, but they did not necessarily influence large companies' strategies.

Other 'non-traditional' services I observed included software development, recruitment process outsourcing, and human resource management outsourcing. Specific examples of these services will be shown throughout this thesis, particularly, the fact that employment agencies' levels of involvement with government strategies was notably higher in China than in Japan, which I will discuss in the next section.

[25] Note that some agencies may not have actually conducted consulting business, but the large number nonetheless shows the popular trend.
[26] At the time of interview (April 2019), there were 124 outsourced trainers and 57 in-house consultants at RMS.

(2) 'Triangular' interaction among employment agencies, business associations, and government

Throughout my fieldwork I encountered examples of large employment agency managers advising policy makers during the drafting process of regulations, either directly or through business associations formed by employment agencies, in both countries. This 'triangular' relationship among employment agencies, business associations, and government is an important 'constellation' for analysing regulatory changes and the roles employment agencies might have played in the change. In this section, I first provide some background information about the business associations of employment agencies, followed by a list of fieldwork observations regarding their interactions. The interviewees were secretive about their involvement in the policy making process, and on several occasions I was asked to keep the details off-record, but I will attempt to provide a general picture of their interaction using permitted examples.

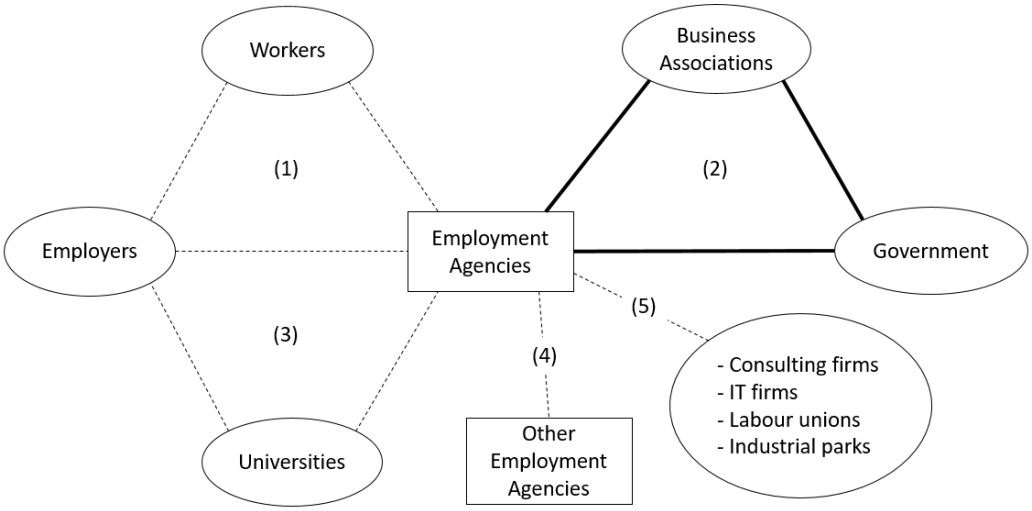


Figure 3.4: 'Triangular' interaction among employment agencies, business associations, and government

Origin and purpose of business associations in Japan and China

The origin of business associations differ between Japan and China. In Japan, business associations were organised by employment agencies to lobby the government for deregulation. They were separated by the four service types categorised in the above section, with the most relevant three business associations being the Japan Executive Search and Recruitment Association (for intermediary services), Japan Staffing Services Association (for dispatching services), and Association of Job Information of Japan (for advertising services). More recently, realising the blurred functional boundaries among these services, the three associations formed the Japan Association of Human Resource Services Industry (JHR) in 2012 to promote interactions across employment agencies and business associations regardless of the service type. However, JHR's main

roles have been market research and information sharing, with little direct influence on the policy making process.

In China, major business associations were organised by the government as extensions of the national ministry, provincial departments, and municipal bureaus of human resources and social security. For this reason, the most active business associations differ geographically. For example, in Shenzhen, the city-run Shenzhen Hunan Resources Management Association was the most active; in Nanjing, the province-run Jiangsu Human Resources Service Industry Association was the most active; in Beijing, the city-run Beijing Human Resource Association for Chinese and Foreign Enterprises and the centrally-run China Human Resources Association were both active but independently from each other, corresponding with their associated government organisations.

Despite the opposite inclinations of these business associations, formed by employment agencies in Japan and government orgnisations in China, their practical roles were similar. In both countries, all interviewees at business associations answered 'self-regulation' as their most significant function, followed by either 'information sharing' or 'information gathering'. However, the purpose of self-regulation varied. In China, business associations promoted self-regulation in order to promulgate policy changes and monitor compliance on behalf of their corresponding ministry, department, or bureau. As a result, the self-regulatory function was most effective when there were clear legal standards, such as with labour dispatching businesses, but not effective when there were no clear laws to follow, as with monitoring labour outsourcing services.

In Japan, self-regulation was promoted for different purposes depending on the business associations and their relevant services. For example, intermediary and dispatching services were operating within a fairly established regulatory environment, hence employment agencies promoted 'self-regulation' through business associations mainly to prevent their competitors from violating the rules and disrupting operations.[27] On the other hand, advertising services were not strictly regulated, and relevant business associations, notably led by Recruit, were trying to maintain a less regulated environment by imposing self-regulation on employment agencies. There were no regulations specifically targeting job advertising businesses, and potential malpractices were handled by the government case-by-case based on relevant labour laws and privacy laws. The job advertising industry was trying to maintain such a less regulated environment; according to a manager at the Association of Job Information of Japan, every time the government showed an intention to draft job advertisement-specific policies, the Association counteracted by tightening their self-regulation practices to show that they were capable of self-monitoring without government mandates.

[27] Although this was called 'self-regulation' (*jishu kisei*) in Japan, it may be better described as 'peer-regulation' or 'peer-monitoring'.

Although business associations were created to lobby, or at least convey, employment agencies' collective intentions to the government in both countries, none of the managers at employment agencies and business associations considered them as having such power. However, after listening to their examples of interactions with policy makers, I realised that business associations and large employment agencies in China can be very influential during the policy drafting process, but not necessarily in Japan. This view was partially confirmed by my interviews with policy makers.[28] The Japanese policy maker I interviewed politely described business associations' advocacy as "informative" (interview, JO4), whereas some Chinese policy makers complained that they were "loud" and "annoying", and others thought them "agreeable", "supportive" and "useful", which hints at more varieties of interactions (interviews, CO5; CO6; CO9).

Comparisons of interactions

Some literature has documented examples of how employment agencies have responded to, or evaded regulatory changes, but what is less studied is the possibility of employment agencies influencing the outcome of regulations through formal and informal interactions with policy makers. Piecing together the information I gathered from interviews at employment agencies, business associations, and government organizations, I found their interactions include the following characteristics:

Firstly, informal interactions played more significant roles in China than in Japan. Not surprisingly, managers at state-owned employment agencies and business associations in China were personally acquainted with workers at human resources departments and bureaus. More interestingly, the majority of private employment agency managers I interviewed in China had relatives working at the local bureaus of human resources and social security. Combining these personal connections with China's casual way of communicating in business, the three actors (employment agencies, business associations, and government) interact informally on a regular basis. Government workers in both Beijing and Shenzhen informed me that before drafting a policy, they would call or text their friends at employment agencies, business associations, and other government agencies to brainstorm. An employment agency manager informed me that when they face a practical obstacle in processing social security or tax, he would directly contact their counterpart in the Beijing bureau via WeChat instead of going through a more official channel to suggest improvement. While I encountered some close connections among employment agency

[28] My original purpose of interviewing policy makers was to fill some knowledge gaps on regulations. While I was able to gain most of the information on Japan during literature review, I needed to conduct more interviews in China to reach the same level of understanding.

workers and business association workers in Japan, this level of personal and informal interaction with the government was not observed.

Secondly, employment agencies and business associations were more active during the formal policy drafting process in China. State-owned employment agencies and government-organised business associations were almost always included in the policy drafting process, and often at multiple stages of the drafting process in China, whereas in Japan, employment agencies were generally excluded, and business associations might or might not be invited to the opinion hearing. Moreover, among the examples I gathered on how employment agencies and business associations changed the policy draft, those in China were more significant.

For example, according to the managers at business associations in Japan, they were sometimes invited to the Cabinet Office for exchanging opinions on new regulatory ideas. However, during the formal policy-making process at the Ministry of Health, Labour, and Welfare (MHLW), they were only included at the last stage, and it was difficult to advise major changes at that point because the final draft had already been written. The most significant success story was that they prevented the policy makers' suggestion to charge fees to individual job seekers using intermediary services, and this opposition was accepted because it aligned with the government intention to protect individual worker's interests. Other examples I gathered in Japan were all minor corrections on wordings.[29]

In China, the policy drafting process varied among government agencies, but it was generally as follows, with involvement of employment agencies and business associations in almost every stage. When a policy maker creates a draft team, s/he includes the corresponding business association in the team to gather information. After the first draft, s/he holds an internal review meeting with the finance and legal departments, then an expanded review meeting with business associations and selected employment agencies to gain practical viewpoints. S/he then opens a public hearing and asks business associations to gather opinions from employment agencies, while some opinions are submitted directly by employment agency managers. Many interviewees in China provided me with examples of employment agencies and business associations influencing the policy outcome, including the rules on permits, taxation, profit calculation, enactment date, and funding allocation, just to name a few.

[29] Some may point out the 1988 Recruit scandal, when over 100 politicians received bribes for preventing regulations on Recruit's business expansion, as an example of employment agencies' policy influence in Japan. However, according to a business association manager, this Recruit scandal traumatised policy makers and prevented employment agencies' involvement in policy drafting processes in the long run. At the time of my interview in Japan, lobbying was still a sensitive subject for employment agencies and business associations, which caused them to develop and enhance self-monitoring practices. I will discuss more details in the next chapter.

Thirdly, cooperation among the three actors had a larger impact on the labour market in China than in Japan. 'Strategic' business-government collaborations to re-shape the labour market were generally initiated by the business associations in Japan, whereas government-led collaborations were limited to the operational level, with an intention to help individual workers. For example, JHR launched the 'Middle Match Frame' project in 2012 to create a market environment suitable for mid-career white-collar workers hoping to change jobs. At the time of interview in 2019, the project was ongoing, and participants included business associations, employment agencies, universities, METI, and MHLW, but the outcome was far from market-changing. In fact, none of the HR managers I interviewed, nor the policy maker at METI, were familiar with the project, and all interviewees agreed that the mid-career white-collar recruitment market remained small in Japan, though gradually increasing its importance.

Some collaborations led by the Japanese government had mixed results. For example, the public employment security office (Hello Work) began sharing databases with private employment agencies around 2014. However, according to a business association manager, this information sharing did not improve the matchmaking results because the type of jobs and workers intermediated by Hello Work and private employment agencies differ greatly in terms of location, skillsets, expectation, and so on (interview, JO1). A more successful example may be the accrediting system organised by MHLW for 'excellent' dispatching businesses[30] judged based on their level of compliance and social responsibility. This system became widely recognised as a helpful tool for workers and employers choosing employment agencies, but was designed within the existing field of dispatching services, with no intention to reshape the labour market.

In contrast, strategic cooperation among the three actors in China was generally initiated by the government, and more practical, lower-level cooperation was designed by business associations and employment agencies in line with government intention. It is no surprise that state-owned employment agencies and business associations were cooperative with government strategies, but private employment agencies may also have been influencing the labour market outcome through interaction with government leaders. For example, three private recruitment advertising agencies' CEOs were invited to the premier Li Keqiang's 2016 visit to the Ministry of Human Resources and Social Security to explain their business structures and market forecasts (People's Daily, 07 May 2016). In 2018, Zhaopin, one of the largest private employment agencies in China, presented their labour market report co-authored with the China Institute for Employment Research (CIER) to Li Keqiang, and was advised to work with the National Bureau of Statistics for fuller data analysis and strategy building (CIER, 2018; interview with Zhaopin manager conducted in December 2019).

[30] *Yuryo Haken Jigyosha Nintei Seido*. (Official website at http://yuryohaken.info/, retrieved 10 June 2021.)

To list a few examples of public-private cooperation at operational levels in China, Zhaopin was contracted to gather volunteers for the 2008 Olympics, create online exams and recruitment platforms for over 200 local government agencies, design the 'employment has a future' program broadcast by the China Central Television for over ten years, and increase the recruitment of foreign students by collaborating with embassies and consulates. During my fieldwork, I encountered three more private employment agencies that were engaged with government organisations at this level and operated across various cities in China (which are 51job, 58.com, and Career). In addition, there were foreign employment agencies that were active in certain cities, such as Adecco in Beijing, and Manpower and Randstad in Shanghai, which collaborated with their local municipal bureaus respectively for data analysis, consultation, and training.

Overall, similarly to the relationship between employment agencies and their clients described in the last section, the intentions of the three actors (employment agencies, business associations, and government) to promote a flexible labour market were more aligned in China than in Japan. Furthermore, the hierarchical relations among these actors in China, with government at the top, may be further accelerating the change. While Japanese business associations and the government have conflicting interests, to encourage flexibilisation and to protect workers' rights respectively, the Chinese government utilises business associations to try to achieve both goals at the same time. According to policy makers and business association managers in China, the government has tightened protections against the exploitation of dispatching workers but has no intention to do the same for labour outsourcing practices; rather, they are taking a 'wait and see' stance and using business associations and employment agencies to monitor the formation of the 'human resource service industry'.

(3) 'Triangular' interaction among employment agencies, universities, and large employers

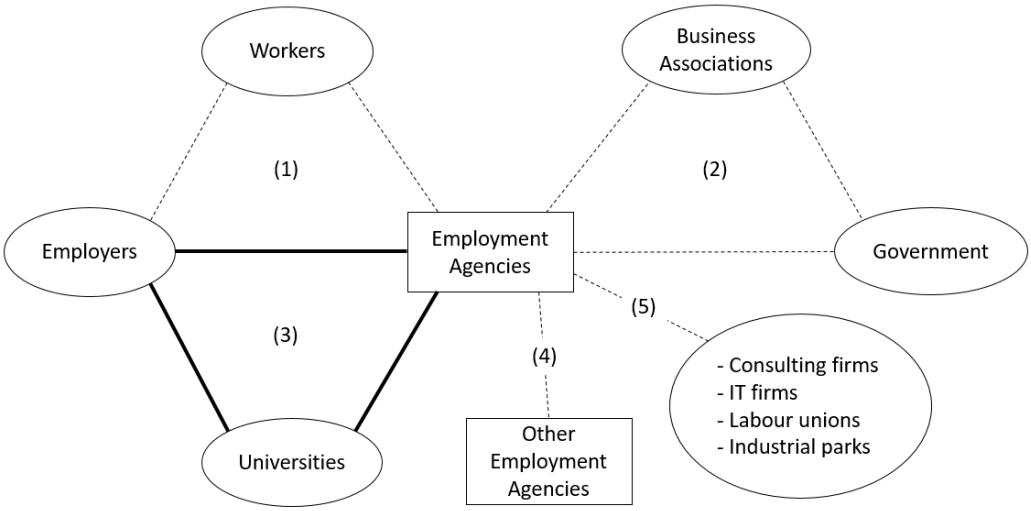


Figure 3.5: 'Triangular' interaction among employment agencies, universities, and large employers

The weakened institutional linkage between schools and employers also contributed to the decline of 'standard' employment in Japan and China. Among all the employers I interviewed in Japan, only three companies maintained a sort of referral arrangement with universities, and that was only for a limited number of engineering students. In China, all employers have abolished the school-to-work job allocation system, but I encountered some informal student recommendations based on personal friendships between professors and SOE managers. Other than these limited cases, most students found employers through recruitment events and online searches. In both countries, large, popular employers can attract students directly to their own recruitment events and websites, whereas less popular employers tend to rely more on employment agencies to post recruitment information on a platform, and to co-host recruitment events.

As described earlier, 'Japanese-style' employment relations still persist, and large employers in Japan want to hire most of their 'regular' workers as fresh graduates and train them in-house as long-term employees. Instead of hiring fresh graduates for each specific post, they offer two or three general career tracks for graduating students to apply, provide three- to six-month 'initial training' classes for each career group, then allocate these new hires to each department and branch, where they go through on-the-job training for another three to six months. These career track categories for student hiring are generally divided as management-track (*sogo-shoku*) candidates mostly for male students, clerical-track (*ippan-shoku*) candidates mostly for female students, and in some cases, general technical track candidates mostly for engineering students.[31]

[31] Japan as a whole may be shifting away from this arrangement in the near future, and it is already happening in some engineering companies such as Hitachi. I will discuss this possible change in detail in chapter six.

The recruitment process for students was less uniform in China. Most of the large employers I interviewed in China hired students for specific positions at specific locations, and tested applicants for their knowledge, skills, and in some SOEs, political opinions at the early selection stage. In addition to these web-based hiring practices, many of them hosted recruitment events at major universities and hired some students on the spot, or offered simplified in-person application options with HR managers. Some conservative SOEs shared the same ideal with Japan and were hiring over 90% of their 'regular' employees from universities with long-term employment in mind, but other market-driven employers were hiring fresh graduates as expendable work horses for physically demanding but simple tasks and mid-career professionals for skill-specific jobs. Employers in China were trying to find a balance between these two extremes, but in any case, most employers hired more than 70%, and all employers hired more than 50% of their 'regular' workers from fresh university graduates.

Amid the rise of university graduates entering the workforce in Japan, Recruit was the first private employment agency to provide an alternative connection between students and employers by starting the publication of recruitment magazines in 1962, from which university students could access recruitment information for free, and employers could advertise their recruitment information for a fairly cheap fee regardless of their associations with universities. With the development of the internet, recruitment advertising gradually shifted to online services in Japan and grew popular, especially among employers who were unable to attract enough direct student applications.

Many private employment agencies established after the 1990s in China were modelled after Recruit, but immediately started as online advertising companies and bypassed the paper-based media design from which Recruit started. Similar to Japan, although job advertising businesses grew rapidly in China, they did not seem to affect the existing hiring advantages of large employers, but were rather a responsive expansion of business opportunities arising from the needs of less popular employers. In fact, none of the large employers I interviewed in both countries posted new graduate recruitment information on employment agency websites. Rather, they were facing the problem of receiving too many student applications, which led them to outsource parts of their recruitment processes, to a higher degree in China than in Japan.

Today, employment agencies in both countries may be contributing to the new 'standardization' of student recruitment processes for large employers, mainly in the technological field. In Japan, this contribution is mostly organized by Recruit, by designing a 'standard' online application tool. All but one company I interviewed in Japan had completely shifted from paper-based to web-based application processes. Most of them used similar website formats provided by

Recruit for new graduate hiring; some companies designed their own websites but included an option to connect to Recruit ID to export relevant personal information; one company had an external link to a Recruit website to complete the application. Because new graduate recruitment is a relatively generalised process for both employers and students in Japan, it seems plausible for many companies to adopt similar formats provided by Recruit.

Due to the more job-specific student recruitment practices in China, the contribution of employment agencies is more diverse and often larger-scale. Moreover, the differences were observed not only in the Japan-China comparison, but also between SOEs and large private firms in China. For SOEs (and even more so for government), outsourcing the designing of entrance exams to their corresponding state-owned employment agencies had become common practice. In 2017, employment agencies conducted tests and evaluations of 28 million job applicants, of which 1.5 million were applicants for public service positions at the central government (Sun et al, 2018; National Public Servant website[32]). Furthermore, in most cases, examining applicants was merely part of a broader 'recruitment process outsourcing' (RPO) contract, which might also include designing application websites, building applicant management tools, performing background checks and pre-screening interviews, organising recruitment events, and so on. As will be discussed further in the next section, after gaining such a large contract, large employment agencies in China often subcontract out some of these works to smaller employment agencies.

Conversely, large *private* employers in China, especially IT companies, built their own online job application systems and were managing a very competitive fresh graduate hiring process with less than a 1% acceptance rate. Because of their popularity, these IT companies were accepting a large number of student interns, hinting at continued employment opportunities upon graduation. In reality, student interns rarely received preferential treatment when they applied for a 'standard' employment position with the company, although the internship experiences may indirectly contribute to their competitiveness as a qualified applicant with any employer. Rather, according to HR managers in these IT companies, student interns were viewed as an integral part of the 'cheap', 'noncore' programmers, along with 'agency' workers.

In sum, universities remain the dominant supplier of 'regular' workers for large employers in both Japan and China, and while Japanese employers have established a somewhat generalised new graduate recruitment practice, for which Recruit participated in the online application format designing, large employers in China vary more greatly in the hiring practice, and have more specific requirements for skillsets and work locations. In addition, in China, while large private IT companies built their own online systems for hiring students, SOEs and government agencies actively

[32] http://www.chinagwy.org/ retrieved 10 June 2021.

outsourced their recruitment processes and relied on technological tools provided by employment agencies. The original function of many of these employment agencies, which is to advertise recruitment information to students, may have influenced the fresh graduate recruitment practice for less popular employers, but did not change the fact that large employers remain most attractive to student applicants in both countries.

(4) Interaction among employment agencies

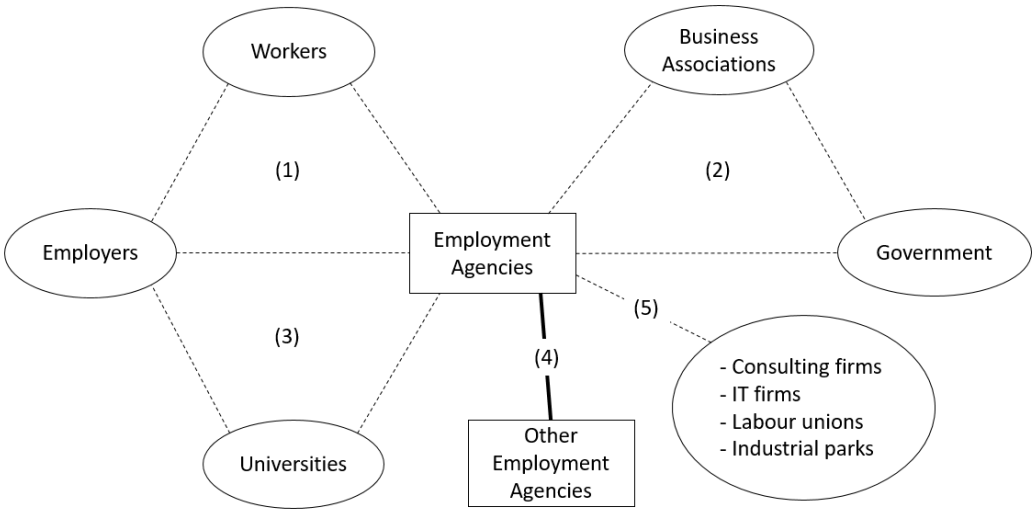


Figure 3.6: Interaction among employment agencies

This section explores how employment agencies interact with each other within different business environments. As described earlier, I encountered the strong presence of Recruit throughout my fieldwork in Japan, but no employment agencies had a comparable dominance in China. Instead, there was a leading state-owned employment agency in each region, and some large private employment agencies were operating across the country, most of them having expanded along with rapid technological advancement. Needless to say, there were many smaller employment agencies operating locally in both countries, and I will present their statistics in the following chapters. In addition, to borrow a dispatching agency manager's words, the Japanese market for their main operations of intermediary and dispatching services is saturated, and therefore most of their efforts are spent on maintaining existing client relations (interview, JA4). In China, state-owned employment agencies had the same tendency to value long-term customs, but private agencies were eager to cultivate new markets and clients. Overall, the market for employment agencies in China was more localised and specialised, but at the same time, each market was more dynamic and competitive compared to Japan.

The cooperative behaviour among Japanese employment agencies can not only be observed in their formation of business associations discussed in the previous section, with intentions to strengthen their policy and market influences, but also in their daily business interactions for more practical purposes. Because of the market dominance of Recruit (followed by Persol and Pasona), as well as their relatively stable long-term client relations, employment agencies in Japan frequently advertised for their potential competitors. As long as the fees were paid, employment agencies viewed other agencies as clients and allowed them to post job advertisements on their websites. For smaller employment agencies, posting their clients' recruitment information on a larger agency platform was a common way of finding workers. When they could not find the right worker, they would also introduce their clients to other agencies temporarily without hindering their long-term business relations.

Moreover, because few large agencies in Japan have accumulated vast databases of job seekers, employers, and their trends, it became common practice for smaller and more specialised employment agencies to purchase databases from large agencies. For example, a human resource manager at a large company (JE9) informed me that they had been hiring certified managing engineers through a smaller agency called Quick for about 15 years, which was buying worker databases from Recruit to scout for workers. These data-selling practices may improve the matchmaking results for both workers and employers, but run the risk of violating workers' privacy. In order to avoid stricter privacy regulations, employment agencies were constantly revising the data protection policies and privacy agreements that job seekers sign upon registration,[33] although it is doubtful that job seekers are fully aware of the contents.

In contrast, data-selling and advertising for other employment agencies were not common in China, which reflects their more competitive relations among each other. However, the hierarchical relationships between large and small agencies, as well as between state-owned and private agencies in China, can be observed in their outsourcing and subcontracting practices. As discussed earlier, employment agencies in China tended to find workers in groups, with the exception of high-skilled workers, and when they could not supply enough workers for their clients, instead of referring to another agency like in Japan, it was more common to keep the contract with the clients anyway and subcontract with another agency to find workers, forming a supply chain of labour.

[33] For example, in December 2019, MHLW reprimanded Recruit and 37 client companies for privacy violation. This 'administrative guidance' was specifically focused on Recruit's data analysis service in which their client companies provided the name of students who applied to the company, and Recruit used their AI to predict whether or not these applicants are likely to withdraw their applications based on their data input, web search history, the past behaviour of similar students, etc. The criticism was based on the fact that the privacy agreement did not specify such data usage, and Recruit has terminated the service in response. This may have reduced students' concerns about their applications being rejected based on AI analysis, but will not change the fact that most students will still have to register with Recruit to apply for jobs online.

This subcontracting relationship among employment agencies was also active in recruitment process outsourcing. Piecing together the information I gained through interviews in Beijing, I was able to follow some networks of subcontracting and outsourcing among employment agencies. For example, the Ministry of Human Resources and Social Security (MHRSS) outsourced the entire process of recruiting civil servants for the central government to Ciic, the only employment agency owned by the central government in China. Ciic created the civil service exams, which involve about 1.5 million exam takers with a 1 to 2% pass rate each year. The application was in transition from a paper-based to web-based process, and the implementation was outsourced from Ciic to local employment agencies where the exams were held. In Beijing, this online transition project was outsourced to Zhaopin, and while Zhaopin created the web-based testing system, they outsourced the 'background check' portion of the application process to multiple smaller employment agencies. I interviewed one of these Beijing-based, medium-sized private agencies, whose owner secured the contract with Zhaopin thanks to his brother working at the Ministry of Human Resources and Social Security.

In sum, data-sharing and business referrals were more active among Japanese employment agencies, whereas Chinese agencies interacted through subcontracting and outsourcing arrangements. Compared to a relatively stable market for employment agencies in Japan with worker-based services as their main business, and a few 'giants' compiling country-wide employment databases, the market and databases in China were more dispersed, fast-growing, and competitive, with agencies finding project-based business relations with each other not only by their specialties, but also by locality, size, ownership, and personal connections.

(5) Interaction with other relevant actors

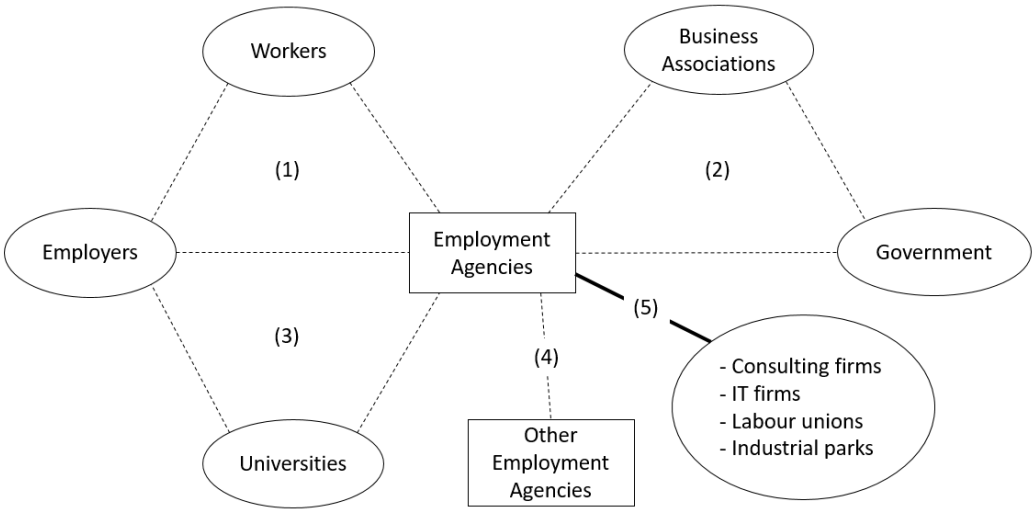


Figure 3.7: Interaction with other relevant actors

In addition to the abovementioned 'constellations', I encountered four more actors during my fieldwork that were directly and indirectly interacting with employment agencies and employers: consulting companies, IT companies, labour unions, and Chinese industrial parks.

Because employment agencies have been expanding consulting services in both Japan and China as part of 'non-traditional' services, they were often hired by their clients to help with employment-related reform and strategy building along with other consulting companies. In response to Japanese government-initiated 'work-style reform', several managers at large companies informed me that they invited a group of consulting firms to reform their wage and evaluation systems. They hired mostly large US-based consulting firms, but Recruit was generally included among them. In China, SOEs have used consulting firms to help with corporate restructuring, and generally included their local state-owned employment agencies for reviewing human resource strategies. According to an SOE human resource manager, they generally selected half foreign-based and half domestic companies to form an advisory group (interview, CE1).

Moreover, some consulting companies in Japan had teams that specialised in employment agencies. During my fieldwork, I met a team at one of the largest Japanese consulting companies that oversaw more than 300 medium to large employment agencies' sales strategies. Their starting rate was 500,000 JPY per month, which may seem burdensome for smaller agencies, but their clients were steadily increasing, which shows that their services were in demand. There were no consultants in China who specifically targeted employment agencies, and I accompanied this Japanese consulting team to visit several employment agencies in Beijing to explore their business opportunities. They were eagerly welcomed by many private employment agency managers who were struggling to keep up with policy changes and to cultivate new clients. However, because of the stark difference in the service types, worker demographics, and local policies, it seemed difficult to directly apply the Japanese business model in China.

Another service overlap employment agencies had was with IT companies, and this was more notable in China than in Japan. In Japan, the division of service and clients seemed fairly clear, and large company managers were familiar with technological services provided by employment agencies, which were mostly online job advertising and application systems, and in some cases, internal human resource management systems. However, HR managers I interviewed in China did not differentiate employment agencies from IT companies when describing their technological system upgrade process. In these cases, the bids were open to employment agencies in conjunction with other software development companies, which were chosen based on their locality, affiliation,

and the target worker demographics.[34] It seemed that the functional division among these companies were less clear in China, which may be because many employment agencies in China, especially the ones started after the 1990s, were established right away as IT-based companies and became known as software developers more than labour suppliers. In fact in 2017, of all the funds used to start new employment agencies in China, 66.7% were spent for new IT service providers, followed by a mere 12.9% for new recruitment service providers (Sun et al, 2018).

Although not my main focus, labour unions were another relevant actor when considering employment agencies, mostly in the context of unionisation of 'agency' workers and 'non-regular' workers hired through employment agencies. The evolution of labour unions in Japan and China has been documented in various literature,[35] and during my fieldwork, many interviewees mentioned needing better protection for 'non-regular' workers from a moral standpoint. One way suggested in Japan was the incorporation of 'non-regular' workers into labour unions, and limited examples included Toyota's decision to unionise 'agency' factory workers who worked for them for over a year.[36] However, unionisation of these workers generally conflicts with the employers' motivation to protect their 'regular' employees, as well as labour unions' motivation to protect union members. A union chair in the electric industry informed me that they laid off most of their agency workers during the 2008 global financial crises in order to protect the union members; he regretted this decision, as he considered labour unions a form of social and public service and hence should protect a broader range of workers (interview, JO2).

The gap between the ideal and the reality of labour unions may be more apparent in China. Ideally, because the Chinese government originated from "the mass organisation of the Chinese working class", the government and union share the same goal of protecting workers' rights (ACFTU Constitution). For this reason, labour unions in China operate under government leadership, and are often criticized for their lack of independence. This hierarchical relationship is especially problematic when government policy conflicts with workers' interests, and previous case studies have shown that labour unions did not resist the mass layoffs caused by SOE restructuring and privatisation; instead, they were used by the government to provide aftercare for the unemployed, through running re-employment centres that intermediated less desirable manual jobs, and poverty relief centres that sporadically handed out goods, whose ineffectiveness forced more workers to look for jobs through employment agencies (Pringle, 2011; Feng, 2018). According to a Chinese state-owned

[34] Because of the large population and competitive market, most companies focused on certain demographics more than others, such as white-collar workers, public workers, factory workers, students, migrants from certain rural areas, and so on.

[35] For example, Gordon (1985), Imai (2011), and Saguchi (2018) for Japan; Pringle (2011), Liu (2015), and Zhu (2018) for China.

[36] Toyota Motor Worker's Union website: https://www.kabanet.org/, retrieved 10 June 2021.

bank manager, their labour union was most active in leading, managing, and training service workers who consisted of both 'regular' and 'non-regular' (including 'agency') workers, acting on behalf of the government and employers rather than representing workers.

Lastly, human resource service industrial parks were sprouting up all over China. They were built to encourage employment agencies, business associations, and relevant government agencies to gather in close proximity, with an intention to promote interactions among these actors and the supply chain of services among employment agencies described in the previous sections. Employment agencies who moved to industrial parks not only enjoyed the prestige of being approved by the government and the right to participate in connection-making events, but also in many cases, subsidised rent and tax. The first national-level Human Resources Service Industrial Zone was established in Shanghai in 2010, and in ten years, 20 national-level industrial parks and nearly 100 provincial- and municipal-level industrial parks were built. In 2019, national-level parks alone accounted for 195 billion CNY in revenue with nearly 2,000 participating agencies (Mo et al, 2020).

However, some industrial parks were more successful than others. While the success story of the SIP Human Resources Service Park in Suzhou[37] is widely propagated in government publications, one of the municipal-level industrial parks I visited in Beijing was half empty. According to a business association manager, this meant that even after passing the review by the local bureau, and gaining tenancy within the industrial park, half of the agencies, especially the large ones that could afford the rent, did not bother to move in. Rather, they only changed their headquarter addresses to the industrial park to enjoy the prestige, connection-making opportunities, and tax reduction, but kept operating at their existing office locations. For this reason, some business associations were advising the government to reduce funding for industrial parks. However, all the policy makers I interviewed were eager to expand industrial parks, and were trying to make them more attractive to employment agency owners by luring in IT and finance industries to broaden business connections, and to industrial park workers by inviting more restaurants, banks, and medical facilities.

The rapid expansion of HR industrial parks in China, and the lack thereof in Japan, may be a representation of Chinese actors' aligned intentions to promote labour flexibility, and Japanese actors' conflicted pursuit of both flexibility and stability discussed throughout this chapter. As a compromise, the activities of Japanese employment agencies were limited mostly in the external labour market to help maintain the existing internal labour markets. However in China, employment

[37] It is the largest national-level human resources industrial park in terms of revenue and number of employment agencies.

agencies were viewed as drivers of the human resource service industry, supported by both the government and employers. In 2007, the Chinese State Council named human resource service as one of the top-priority industries to promote under government leadership, followed by a series of local government planning and restructurings to execute this initiative. This explicit push toward a flexible labour market further accelerated the evolution of employment agencies in China compared to Japan. I will present detailed policies and figures in the following chapters.

Conclusion

As shown in this chapter, the intention to change the labour market into a more flexible shape is shared across employment agencies, large employers, business associations, and government in China, with strong government leadership. However in Japan, the conflicting motivation to promote a flexible labour market and to maintain the existing norm of 'standard' employment was apparent not only among these actors, but also among employment agencies. As a compromise, Japanese employment agencies mainly serve supplementary roles to protect the core 'standard' employment, whereas employment agencies in China are more actively involved in employer and government strategies in internal and 'quasi-internal' labour markets.

Ontologically, the difference in these actors' behaviours can be explained by positivists as the outcome governed by the different institutional settings in which they operate, and by constructivists as the driver of institutional outcome and change. However in reality, employment relations and labour markets have been co-evolving with the actors listed in this chapter, through the constant process of interactions and interdependencies between institutions and actors. This view is supported philosophically by critical realism, which stresses the 'reciprocal confirmation' between concept and practice; theoretically by historical institutionalism, which focuses on the incremental changes underneath apparent institutional stability caused by constant struggles, adaptation, and reinterpretation by actors; and empirically by compressed development, which analyses the co-evolution of state and market, organization and technology, as well as the roles of actors leading the change, such as large corporations, government agencies, and public organizations. The next chapters will use these approaches to trace the co-evolution of employment policies, employment relations, and actors that I have introduced in this chapter. By doing so, I will showcase how employment agencies have been growing in both number and function, and have been playing an increasingly active part in the labour market changes in Japan and China.

Chapter Four: Evolution of employment agencies in Japan

Introduction

This chapter traces the evolution of for-profit employment agencies in Japan by discussing their development and expansion process, causes and effects of their changes in practice, and their involvement with changing employment relations and policies. For the most part, changes in Japanese employment agencies have been incremental, but there were certain tendencies, motivations, and behaviours of labour market actors that were more commonly observed in a particular period over another, which can be roughly divided into three phases for the 'systematic process analysis' discussed in chapter two. I will first follow the birth and early-stage development of major employment agencies during Phase 1 (until the mid-1990s), then showcase the rapid expansion of agency services along with deregulation during Phase 2 (mid-1990s to 2000s). The main practices established during Phase 2 continue to this day, despite significant policy changes occurring during Phase 3 (from around 2010 on). Previous agency-related studies were mostly conducted during Phase 2 because of relatively drastic changes, so I will rely more on secondary data to discuss Phase 2 while using more fieldwork findings for Phase 1 and 3. Lastly, I will list some speculations for future development in the conclusion.

Phase 1: Exploratory growth of agencies within restricted environments (~mid 1990s)

The 'Japanese-style' human resource management was strongly established, institutionalised, and celebrated[38] by the end of Japan's high economic growth period. However, the aligned motivations of employers, policy makers, and labour unions to protect the status of 'standard' employees, even when the growth had slowed down, resulted in more usage of 'outsiders'. The increase of part-time workers had been documented since the mid-1960s at small- to medium- sized firms in order to balance out the raised salary for 'standard' employees (for example, Gordon, 1985; Kusano, 2021). A shift from using 'standard' to 'non-standard' workers at assembly lines occurred during the 1970s and 1980s, because these jobs were no longer labour- and skill- intensive as a result of computerization and automation. The growing service industry, particularly retail stores, also hired a large number of part-time workers during this period (Ministry of Labour, 1971 and 1975). The increase in 'non-standard' workers was not considered problematic for the most part, but a necessary buffer to maintain the stability of 'standard' employees. The fact

[38] For example, OECD (1972 and 1977) reported that Japanese-style employment contributed to the country's rapid economic development, social stability, equality between white- and blue-collar workers, success in avoiding mass layoffs and prolonged inflation during the oil crisis, and so on.

that they were predominantly female, whose primary role was assumed to be housekeeping, also justified the exclusion. It is within this context that for-profit employment agencies emerged.

Continuity of worker-employer 'matchmaking' practices

Before discussing my main research focus, which is for-profit employment agencies that emerged after the 1970s in Japan (with the exception of Recruit, founded in 1960), I will briefly point out job introduction practices that had previously existed. For example, private labour brokers[39] and charity-run job introduction organisations were already active in the late-19th century. More notably, government-run employment security offices had been developing since the early-20th century, which were first established in Tokyo in 1911, followed by Kyoto in 1919, and 715 more offices nationwide by 1937, mainly to solve unemployment problems locally (Gordon, 1985; Kusano, 2021).

The influence of public employment security offices (now known as Hello Work) peaked in the post-WWII era. During this time, privately-run employment agencies were labelled "worker supply services", which were considered exploitative, and banned under the 1947 Employment Security Act and the 1949 ILO Convention No. 96. Public employment security offices were the primary job allocator of middle school graduates, which were the largest new workforce entering the labour market until the mid-1960s. By matchmaking a large number of new graduates and employers, employment security offices served as controllers and adjusters of labour markets, as well as exploitation preventors and protectors of unemployed youth, while attempting to maintain freedom of employment choice (Kariya et al, 2000).

The number of employment security offices continued to grow, but their significance and number of matches began to decrease as the main source of new graduates entering the workforce shifted from middle school to high school to universities, with the latter two forming direct connections with employers. The increase of high school attendance also meant there were less middle school graduates needing help from employment security offices (Kariya et al, 2000). Today, Hello Work is viewed as a 'safety net' for the unemployed of all ages, and its services include unemployment insurance processing and local employment introduction, although the role of finding 'standard' employment for job seekers, especially white-collar jobs, has been gradually taken over by for-profit employment agencies (interview, EA1; EA3).

[39] Attempts to regulate labour brokers and their human-trafficking-like activities by local governments are documented as early as 1872.

Limited growth of for-profit job intermediary agencies

Although job intermediary services were expected to be performed only by public employment agencies during the post-WWII period, in order to supplement areas where public agencies were not equipped to serve sufficiently, for-profit job intermediation was allowed for 11 specific occupations under the 1947 Employment Security Act, which included entertainers, housekeepers, nursing assistants, food servers, cooks, models, and hairdressers. It is documented that the first for-profit job intermediary agency received its business permit in 1966; nine for-profit intermediary agencies organized a conference in 1970, and formed it into an association the next year, which grew to be today's Japan Executive Search and Recruitment Association (JESRA) consisting of about 320 agencies (JESRA website). Throughout Phase 1, the government periodically added new permitted occupations, and by 1991, the list had grown to 29. However, it did not change the fact that for-profit intermediary agencies were operating in a very limited field during Phase 1, and that their growth was slow. As shown in Figure 4.4 in the next section, between 1987 and 1997, the number of for-profit intermediary agencies stayed between 3,000 and 4,000.

Birth of for-profit dispatching agencies

The 1972 oil crisis and the end of high economic growth prompted a government campaign for 'downsizing of management' (*genryo keiei*) and attempts by large employers to streamline their businesses in the mid-1970s. This process included re-allocating 'standard' employees, hiring temporary workers, and expanding subcontracting and outsourcing arrangements. Subcontract *keiretsu* relations in manufacturing, institutionalised between the mid-1950s and mid-1960s, were further strengthened, not only to reduce costs and retain flexibility, but to more effectively design innovative and competitive products.[40] Not limited to manufacturing, it became increasingly common for large employers to outsource what they considered 'non-core' functions, which included transportation, maintenance, cleaning, advertising, and most notably, office support such as data input, translation/interpretation, secretarial work, reception, and so on. For-profit office support agencies emerged during this period, and were precursors of for-profit dispatching agencies.

The first office support agency was introduced to Japan in 1966 by Manpower, a US-based company, but its expansion did not happen until the mid-1970s. Other notable office support agencies created during this period were TempStaff (now Persol) in 1973, Temporary Centre (now Pasona) in 1976, and Adia Japan (now Adecco) in 1985. One common feature of these agencies was

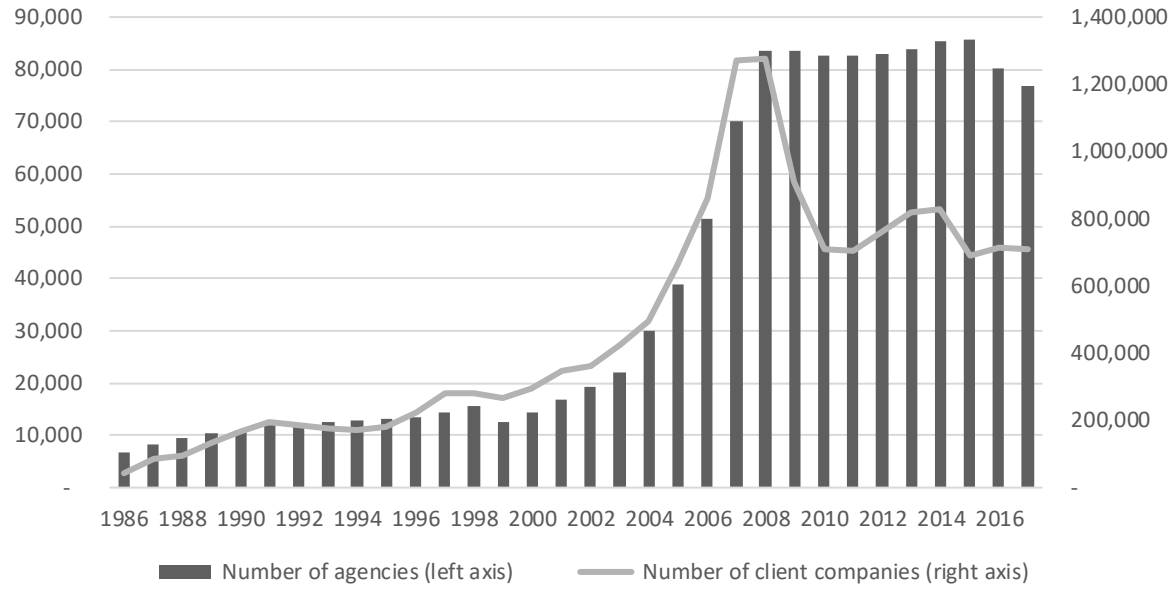
[40] Subsidiary companies, who had been simply taking orders from their parent company, began to participate in research and development teams organised by the parent company, and were expected to contribute to product innovations and designs.

that they initially called themselves subcontracting or outsourcing companies, because for-profit labour dispatching was prohibited until 1986. In reality, their function was closer to dispatching than subcontracting, as agency workers were sent to the client company's office, inevitably taking directions from the client company manager to some degree, even though it was prohibited. Another common feature was the use of female workers, which coincided with the already increasing number of housewives taking on part-time jobs at the time. Office support dispatching gained popularity among women who had previously worked as 'office ladies' after graduating from schools and had quit upon marriage. To them, registering as office support dispatching workers seemed a better use of their 'office lady' experience than finding a customer service job at a local retailer.

During my fieldwork, I interviewed a former manager who shared her knowledge of the founder of TempStaff (now Persol), the first labour dispatching company created in Japan. The founder had extensive overseas experience and was inspired by a dispatching agency she witnessed in Australia. She learned and mimicked the business model of labour dispatching, but avoided the term 'dispatching' (*haken*) and called it 'clerical process subcontracting' (*jimu shori ukeoi*) at first. Because this business concept was new to Japanese companies, the first office was set up in Roppongi where foreign companies were the most concentrated. The interviewee pointed out that the timing of founding coincided with "the first wave of incoming foreign companies" that were all looking for local secretaries and receptionists, so the business grew fairly "smoothly" in the mid-1970s. They were receiving endless phone calls by the time they moved to a larger office in 1978.

Policy makers soon took notice of this new form of business, mostly in a negative way, as it could be considered "worker supply services", explicitly prohibited by the 1947 Employment Security Act. A government-initiated research committee was launched in the late-1970s to investigate these private agency practices (AMA, 1978). The founder of TempStaff was summoned several times in 1976 and 1977 for potentially illegal practices, but the business was never suspended because it was difficult to pinpoint what was illegal (interview, April 2019). At that time, labour dispatching was a new, unfamiliar business model in Japan, and there were no laws or practices that could clearly define dispatching as either legal subcontracting or illegal 'worker supply' services. Moreover, the prohibition of worker supply services was intended to terminate the exploitation and forced labour by labour brokers existing before the WWII (Sugayama and Nishimura, 2000). White-collar office support dispatching, which emerged from the new outsourcing trend and was based on proper employment contracts between agencies and workers, seemed neither exploitative nor forced.

Figure 4.1: Changes in labour dispatching services



Data compiled from annual MHLW aggregation of business reports submitted by dispatching agencies

In response to the increase of office support dispatching, the 1985 Labour Dispatching Law (enacted in 1986) legalised labour dispatching services on a limited basis. It provided a list of 13 specific occupations (expanded to 16 the same year) for which labour dispatching was permitted (Appendix C). Although it acknowledged the potential usefulness of dispatching, this list reflected the intention of the government and labour unions to protect 'standard' employment and to prevent dispatched workers from replacing the role of 'regular' workers (Imai, 2009). The permitted occupations were limited to those that required professional skills, and were supplementary or temporary in nature. In the same year, the Ministry of Labour published guidance to differentiate subcontracting from dispatching (Ministry of Labour, 1986). Among the 16 legalised occupations, the actual uses of dispatching services were predominantly "operation of office machines", which was the result of existing 'office support subcontracting' agencies re-labelling their services to labour dispatching by obtaining permits.

This partial legalisation of labour dispatching services encouraged office support agencies to expand their businesses nationwide. Most of them were originally created in Tokyo or Osaka, but they began slowly spreading to other cities from the mid-1980s. Their relatively gradual growth during Phase 1 can be seen from Figure 4.1; in 1986, there were 6,861 dispatching agencies and 42,702 client companies; in 1995, there were 13,061 and 181,828 respectively. According to the Employment Status Survey (Statistics Bureau of Japan), the number of dispatched workers nearly doubled between 1986 and 1993, from about 87,000 to 163,000 respectively. However, it is important to note that dispatched workers only accounted for a very small fraction of the total

workforce in Japan, which had surpassed 60 million by 1992. Dispatched workers were for the most part treated as specialists that were required to perform temporary tasks during Phase 1, and the growth was within a restrictive legal environment. Their 'boom' as a result of deregulation will be discussed in Phase 2.

Birth of job advertising agencies

Other precursors of employment agencies, namely job advertising companies, also emerged during Phase 1. Recruit (founded in 1960), Mynavi (founded in 1973), and en Japan (founded in 1983) grew to be the top three recruitment advertising agencies today. During my fieldwork, I mostly focused on Recruit, and visited five of its group companies, because it was the oldest and largest employment agency in Japan. It was also the most frequently mentioned employment agency throughout my fieldwork, not just by its competitors, large employers, and policy makers in Japan, but by large employment agencies and policy makers in China, making it undoubtedly the most dominant and influential employment agency I visited. This sub-section will trace the birth and evolution of Recruit during Phase 1.

Although the services Recruit provides today are extensive, during the first decade following establishment they were limited to the publication of job advertisement magazines targeting university students, which was inspired by career guidebooks distributed throughout US college campuses at the time.[41] According to a Recruit manager, the business grew "accordingly" as the number of university students increased, as well as recruitment difficulties at small- and medium-sized employers (interview, JA4). The first wave of rapid growth happened after their expansion into real estate business, including the publication of a rental housing information magazine (now *SUUMO*) in 1976, which grew even faster during the 'bubble' economy (interview, JA1). Their core business also expanded throughout Phase 1, led by the creation of various job advertisement magazines that quickly became popular, including *Torabayu* (derived from *'travaille'* in French) for female recruitment launched in 1980, *FromA* for part-time recruitment (mostly for young workers) launched in 1982, *Gaten* for blue-collar recruitment in 1991, and *TOWNWORK* for regional recruitment launched in 1998.

All magazines listed above were published with an intention to improve the image of working as a non-'salary man'. *FromA* justified young workers who chose to stay as flexible 'non-

[41] I came across an old corporate information leaflet stating that in 1963 Recruit began selling comprehensive 'assessment' services that emphasised personal character and aptitude, which would replace their clients' simple, standardized, resume-based recruitment methods. This later became one of the main services provided by RMS, but I suspect that in the 1960s, it was still experimental and negligible in terms of revenue and influence.

standard' workers, and created the term '*freeter*' (combining '*free*' and '*arbeiter*') that categorized their lifestyles. Although it was possible for *freeters* to earn enough income during the 'bubble' economy, they have gained a negative image since the mid-1990s as more and more young people became *freeters* because they were unable to find 'regular' jobs, rather than by choice. *Gaten* is also a term made popular by Recruit, which attempted to paint a "very cool" image of blue-collar workers (interview, JA5). Although the magazine ended in 2009, the term *Gaten* is still a commonly used term that refers to physical workers, mostly in a positive way. Similar to *FromA, TOWNWORK* is another part-time recruitment magazine, but with a broader target age and stronger local focus. It was intended to convey a message, "why move for work, when you can find jobs in your hometown?" (interview, JA5). While most magazines became exclusively online-based during Phase 3, *TOWNWORK* is still published weekly on paper for free, in addition to online-based publications, and remains an increasingly popular job advertisement magazine.

I met one of the original editors of *Torabayu*, who expressed her clear intention to change the labour market by encouraging female employment. She recalled that female workers were viewed negatively in the 1970s because it implied that their husbands' incomes were not sufficient for the household. In addition, gender discrimination in recruitment, job allocation, promotion, salary, and so on, was customary, which reflected the 'traditional' male-female role divide. This was hindering career opportunities for women who were looking for challenging but fulfilling jobs, regardless of their financial situation. *Torabayu* was created to change this negative image by picturing female employment and job searching in a fashionable way. The magazine, along with its TV commercials with well-dressed actresses and catchy theme songs, became a social trend in the 1980s; the term 'doing *torabayu*' (*torabayu suru*) became a widely used phrase that referred to female job changing. In 1985, Japan ratified the United Nations Convention on the Elimination of All Forms of Discrimination against Women, which was followed by the enactment of their domestic law, the 1986 Act on Equal Opportunity Between Men and Women in Employment (commonly referred to as the Equal Opportunity Law). The interviewee claimed that their positive female employment movement pushed by the magazine led to the establishment of these women's legal rights, though I could not confirm it with policy makers.

A significant event in Recruit's attempt to influence policy makers during Phase 1 was the so-called 'Recruit scandal' in the late-1980s, which revealed that Recruit had handed out unpublished shares of its subsidiary company to various political and economic leaders, with an intention to terminate the ongoing government discussion about regulating the job advertising industry.[42] First

[42] Instead of cash, they gave away pre-IPO shares of their soon-to-be-published subsidiary real estate company named COSMOS, which may be both bribery and insider trading. Because Japan was in the middle of the bubble economy, the share price skyrocketed after it went public.

covered by the *Asahi Shimbun* in 18 June 1988, almost all media in Japan heavily chased this case, and reported that the recipients amounted to over a hundred, and included the then Prime Minister, Chief Cabinet Secretary, Liberal Democratic Party Secretary-General, Minister of Finance, and so on. Although few of them were prosecuted and even fewer were found guilty, a burst of public outrage resulted in the resignation of the entire cabinet office in 1989. The scar caused by this scandal made Recruit extremely cautious about political engagement from then on. A Recruit manager informed me that the current political leaders were those who were directly affected by the scandal and understandably dislike Recruit, so their political engagement is mostly through business associations collectively with other agencies. This may be one of the reasons for Recruit's relatively low policy influence I observed during my fieldwork, despite its market dominance.

The scandal certainly affected Recruit negatively, but its intention to prevent new regulations succeeded. Unlike job intermediating and dispatching services that were tightly restricted by law, advertising agencies remain unregulated to this day, and Recruit has kept it that way by self- and peer-regulation through business associations. The biggest obstacle they faced in Phase 1 were perhaps persisting norms established during the high growth era. Strong preferences for lifetime employment frowned upon mid-career job changes and 'non-standard' employment pushed by Recruit; the pride in a manufacturing-led economy created an aversion to this new 'middleman' business, whose profits seemed to outweigh its contribution to society. Attempts by Recruit to spread a positive image of flexible employment somewhat succeeded through popular magazines, but this was soon tainted by the company scandal and the increase of precarious workers. Nonetheless, Recruit's business continued to grow. While expanding magazine services, they also started dispatching services right after the legalisation, which has since remained one of their main revenue sources. They also began testing and researching newly introduced computer and internet technology from early on in preparation for the upcoming digitalisation era in Phase 2, which I will discuss next.

Phase 2: Agency boom along with deregulation (mid 1990s – 2000s)

Employment agencies in Japan experienced the most drastic changes during Phase 2. The original notion set by the post-WWII government, that for-profit employment agencies should only operate as a supplement to public employment services, and with government permission to prevent labour exploitation, vanished rapidly during this period. A series of deregulations accelerated the expansion of employment agencies, which created various ways to contribute to the 'flexilibization' of the labour market. Particularly, by the end of Phase 2, subcontract workers had become bastions of 'cheap' and 'dispensable' labour, dispatched workers had lost their status as

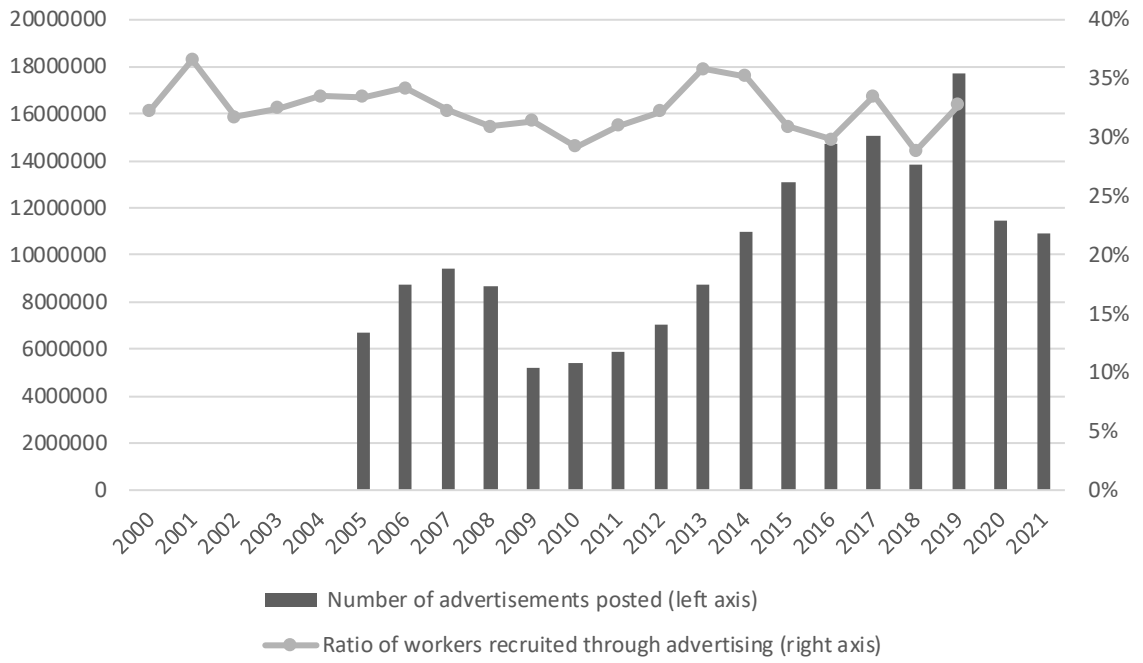
'white-collar professionals', and job advertising and intermediary services had become more geared toward high-paying positions. The four types of employment agency services that had begun to emerge in Phase 1 were formally established during Phase 2, which are categorized as: advertising, intermediating/headhunting, subcontracting/outsourcing, and dispatching (see chapter three for details of this categorisation). I will first discuss the evolution of each service separately, then point out some key common features at the end of this section.

Digitalization of job advertising services

According to an annual MHLW (Ministry of Health, Labour, and Welfare) Survey on Employment Trends conducted since 2000, the most common 'recruitment route' through which workers find their jobs has consistently been 'advertisements', followed by 'personal connection' and 'Hello Work'. In addition, finding jobs through advertisements has been particularly popular among young workers entering large companies. In fact, during my fieldwork, several HR managers complained about high advertising fees, making them only use advertising services for management-track 'standard' employment positions. The overall usage rate of job advertisements has been relatively constant, at around 30% to 35% as can be seen from Figure 4.2, but within the 'advertisement' category, the ratio of different media sources changed greatly during Phase 2 due to digitalization. There is no consecutive data to separate internet-based job advertisements from paper-based, but I will point out several studies conducted during Phase 2, supplemented by my interviews, to trace the digitalization of job advertising agencies.

Most employment agencies experienced digitalization during Phase 2, but the changes it brought to advertising agencies were especially significant, because it meant a drastic shift of business from magazine-based to website-based. In 2000, less than 1% of workers found their jobs on the internet (Recruit Works Institute, 2000), while 32.3% of workers found jobs via advertisements (MHLW). The dominance of paper-based practices until that point can also be seen from an estimate made by the Association of Job Information of Japan (AJIJ) regarding the recruitment advertising market, stating that the industry revenue in 2000 was about 576.5 billion JPY, which predominantly consisted of recruitment magazines amounting to 390 billion JPY, followed by 150 billion JPY from advertisement flyers, 35.5 billion JPY from newspaper advertisements, and 1 billion JPY from advertisements in other magazines. Internet-based job advertising was excluded from the official estimate because the market was "small in scale and difficult to estimate" (AJIJ, 2002: 19).

Figure 4.2: Ratio of workers recruited through job advertising, and number of job advertisements posted (all media sources combined)



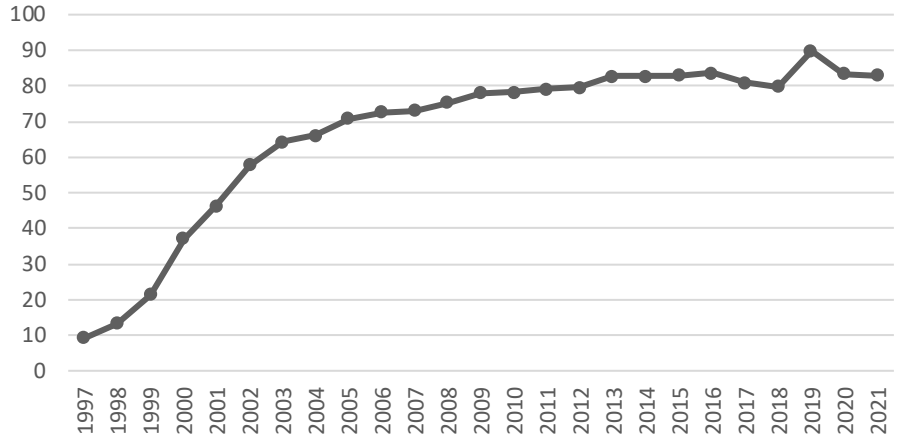
Data compiled from Survey on Employment Trends, MHLW; Survey on Job Advertisement Posts, AJIJ

Almost all major job advertising agencies began some form of online service between 1995 and 2000, by creating a digital version of their existing magazines, with the first being *EN Employment Net* by en Japan in 1995, followed by *Career Space* by Mynavi in the same year, and *RB on the Net* and *Digital B-ing* by Recruit in 1996. Although the abovementioned studies showed that online recruitment advertising was almost negligible until 2000, a Recruit manager who was involved in the digital transfer of several magazines recalled that the number of jobs posted online surpassed that of their paper magazines between 2003 and 2004. He also estimated that the overall paper-to-online transfer was completed during Phase 2 for most job advertising agencies. However, paper-based recruitment magazines also remained popular, which meant that workers could access the same recruitment information in both paper and online form during the mid-2000s. Termination of magazine publications ramped up after the 2008 global financial crisis, which accelerated the shift to internet-based advertising services. According to AJIJ, the number of job advertisements posted in paper magazines dropped by about 80% between 2004 and 2017.

The online transfer of job advertisements coincided with the rise of internet usage in the late-1990s and early-2000s shown in Figure 4.3, mostly accessed via computers during Phase 2, and surpassed by mobile access in 2010 (MIAC). In addition, according to a Recruit manager, the accumulated databases of workers and employers gave them a better idea of their clients' needs,

and led to the development of new business designs, with the most popular being the 'scouting' system, in which employers can search resumes online and offer jobs, in addition to job seekers finding employers. Further diversification of the recruitment advertising industry along with the development of IT will be discussed in Phase 3.

Figure 4.3: Household internet usage rate (%)



Information & Communications Statistics Database, Ministry of Internal Affairs and Communication (MIAC), various years.

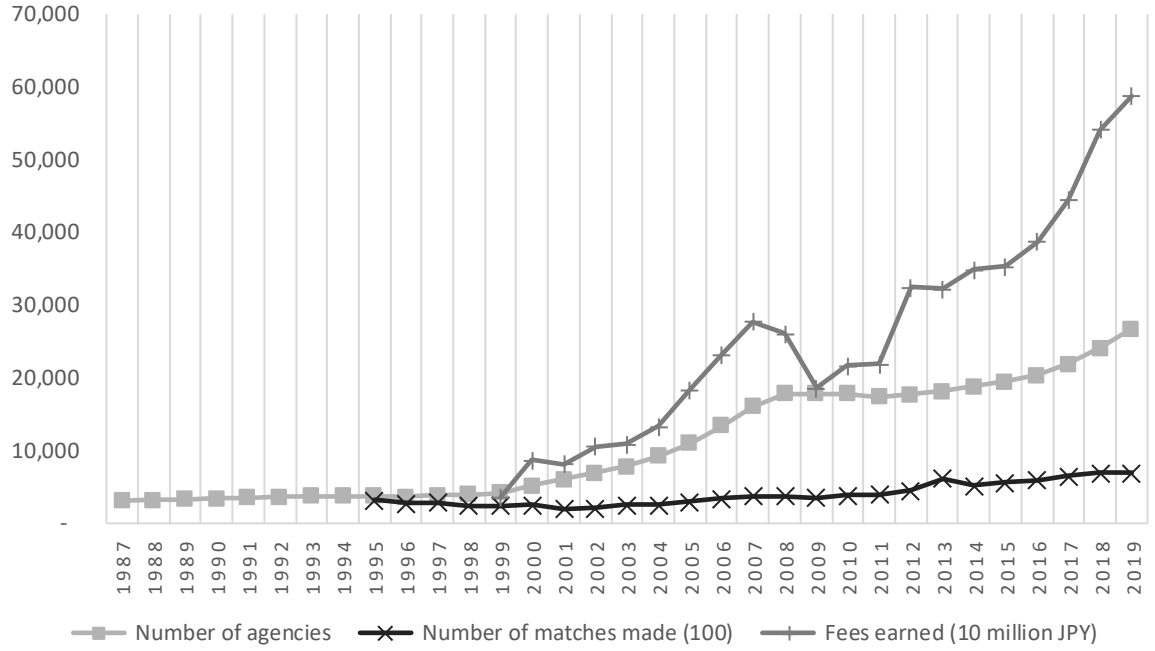
Legalisation of for-profit job intermediary services

In response to the overall increase of for-profit employment agencies both domestically and globally, several government-led research projects were organized between the late-1980s and early-1990s to study labour market change.[43] Following these studies, JESRA (Japan Executive Search and Recruitment Association) submitted a series of petitions to the then Ministry of Labour between 1993 and 1998 regarding the deregulation of for-profit job intermediary businesses. The first significant deregulation was the update of Enforcement Regulation of the Employment Security Act by the Ministry of Labour in 1995 and 1997, which lowered the standard for obtaining and renewing agency permits and expanded the list of permitted occupations. This was followed by the 1999 amendment of the Employment Security Act, which extended the permit from three to five years, offered the option of setting fees at the agency's discretion, and most importantly, eliminated occupation restrictions with the exception of port transportation and construction. In the same year, Japan also ratified the ILO Convention No. 181 (1997) which recognized the potential role of for-

[43] For example, around 1990, JESRA participated research groups organised by the Ministry of Labour on private labour supply and demand systems and human resource intermediary businesses.

profit employment agencies in a "very different" economic environment from when the ILO Convention No. 96 (1949) was established.

Figure 4.4: Changes in for-profit job intermediary services



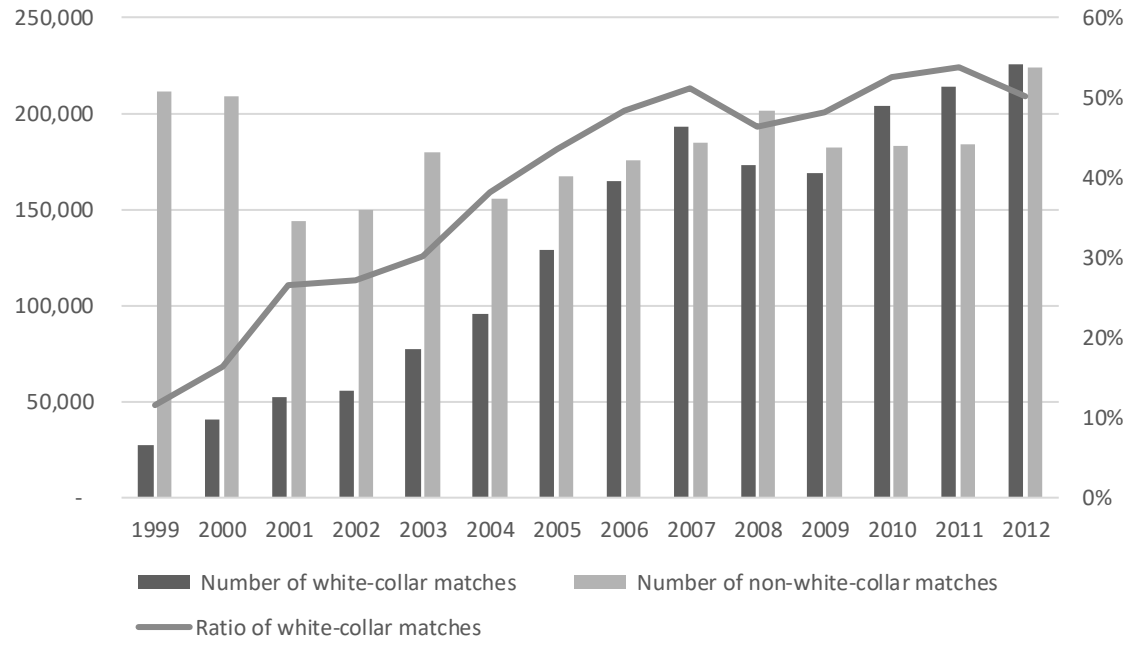
Data compiled from annual MHLW aggregation of business reports submitted by intermediary agencies and archives at the Supply-Demand Adjustment Division, Bureau of Employment Security

As shown in Figure 4.4, the number of for-profit job intermediary agencies and their revenue began to grow immediately after the 1999 deregulation, which lasted until the industry was hit by the 2008 global financial crisis. The number of agencies increased from 4,227 to 17,842 between 1999 and 2008, and fees earned increased from 36.4 billion JPY to 277.1 billion JPY between 1999 and 2007. However, the number of matches made[44] remained relatively constant, which hovered around 200,000 to 350,000. Several changes during Phase 2 contributed to this phenomenon. Firstly, because the occupation restriction was lifted, many existing employment agencies that had been providing dispatching and advertising services attempted to expand their businesses into job intermediation. This greatly contributed to the increased number of for-profit intermediary agencies, which is counted by the number of permits issued, but did not result in a greater number of matches made to the same extent because many of these agencies were starting job intermediary services as a new, small-scale, side business.

[44] Note that this number only concerns matches made for employment term of 4 months or longer.

Secondly, the new regulation allowed employment agencies to choose their fee options from (1) a general cap of 10.5% of worker's initial annual salary or (2) a discretional setting of up to 50% of worker's initial salary with government permission. Naturally, agencies opted for the latter swiftly. In 2000, a year after the fee restriction change, fees earned from discretionary setting already exceeded 60%; this ratio increased to about 85% in 2003 and 95% in 2007 (MHLW, 2020). According to several employment agency managers I interviewed, it became customary to set the fees around 30-35%, and anything higher would be rejected by the government except for special cases such as executives or engineers with rare and highly desirable skills. Thirdly, since the end of occupation restrictions, job intermediary services for white-collar workers had increased significantly, as shown in Figure 4.5. This also contributed to the greater increase of fees during Phase 2, in comparison to the more gradual change in the number of matches made; because white-collar workers were generally offered higher pay, fees earned per-matchmaking increased correspondingly. Although their revenue dropped between 2007 and 2009 as a result of the 2008 global financial crisis, job intermediary agencies recovered relatively quickly, and continued to expand during Phase 3, especially in the field of mid-career job shifts of management-track 'regular' workers.

Figure 4.5: Increase of white-collar matches made by for-profit intermediary agencies



Data compiled from annual MHLW aggregation of business reports submitted by intermediary agencies

Emergence of on-the-premise subcontracting services in manufacturing

As part of production streamlining that began in Phase 1, a new type of subcontracting arrangement, 'on-the-premise subcontracting' (*kounai ukeoi*), gained popularity among large manufacturers in the 1990s. In this arrangement, a subcontracting company took on part of a larger production line at its parent company's or client's factory, instead of completing a project at its own factory. Although it has been practiced since the post-WWII period, most on-the-premise subcontracting companies were created in affiliation with large manufacturing companies until the 1980s, but were created independently to serve various manufacturers in the region in the 1990s. For example, World Intec (now World Holdings) created in 1993, Aim CIC (now UT Group) created in 1995, and OUTSOURCING Inc. created in 1997 began their businesses as independent on-the-premise subcontracting agencies for manufacturing, and grew to be the sixth, eleventh, and fourth largest employment agencies respectively in Japan.[45]

Although there is no consistent data, it appears that on-the-premise subcontracting in manufacturing grew throughout the 1980s and 1990s, and peaked around the mid-2000s. In the electric industry where subcontract workers were most ubiquitous, they comprised 67.2% of 'non-standard' workers in 2001, which was much greater than part-time workers and dispatched workers combined (Sato, 2001). According to a government-organized research group that considered the improvement of subcontract worker management in manufacturing (MHLW, 2006-2007), there were about 866,000 subcontract workers in manufacturing in 2004, who were predominantly young males at large manufacturers with short-term contracts, and had few opportunities for promotion and skill improvement. With the intention to improve subcontract work conditions, the government established a guideline (MHLW, 2007) to regulate subcontracting agencies and their client companies, as well as a certification program to endorse those that followed the guideline.[46]

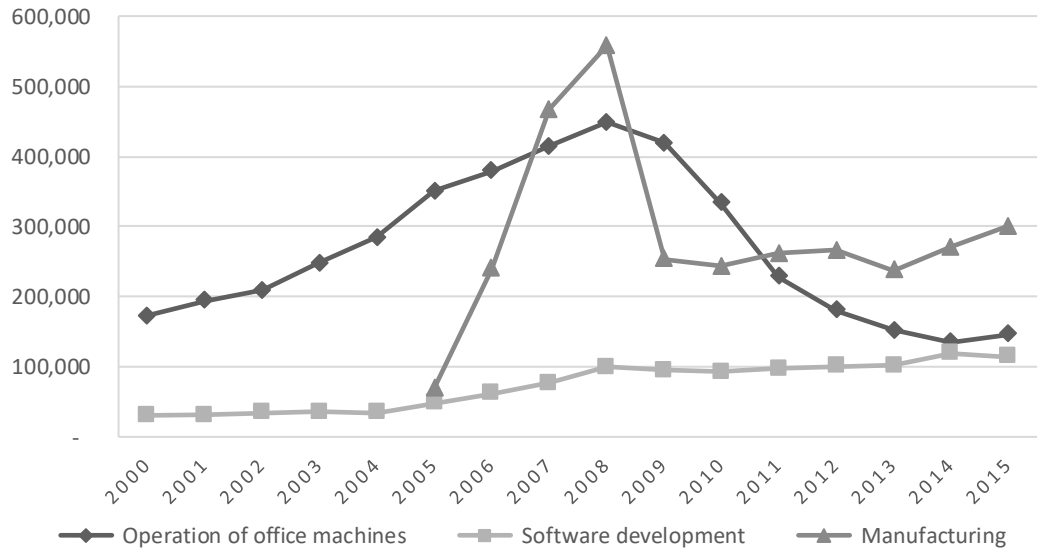
The increase of on-the-premise subcontracting created the common 'disguised subcontracting' (*giso ukeoi*) problem discussed in chapter three; because subcontract workers were sent to the client's factory, they were often supervised by the client company manager instead of their direct employer, even though it was not allowed. Sato and Kimura revealed in their 2002 survey that only 37% of on-the-premise subcontract workers were consistently supervised by the subcontracting company, and that about half of the subcontract workers were working in conjunction with workers hired by other subcontracting companies. This created complex, unclear, and illegal supervisory relations in which subcontract workers could be taking directions simultaneously from their company manager, client company manager, and co-working

[45] At the time of my fieldwork in 2019-2020. Ranking based on revenue.
[46] Recognition System for Good and Appropriate Manufacturing Subcontracting Businesses, undertaken by the Council for the Improvement and Promotion of Manufacturing Subcontracting Businesses.

subcontracting company manager. By the mid-2000s, the increase of 'disguised subcontracting' had become a commonly criticized topic in media, leading to strengthened on-site audits by local labour bureaus (Sato et al, 2006) as well as the government-led research and guidelines mentioned above. The social backlash against this practice was accelerated by a series of reported lawsuits involving famous companies, including Canon, Matsushita (now Panasonic), Nichia, Nikon, and Toyota, to name a few. These cases highlighted blatant violation of subcontracting agreements, in which subcontract workers were exploited as dispensable regular workers.

These 'disguised subcontracting' scandals pushed many large manufacturers to announce the direct-hiring of subcontract workers, but most of them offered fixed-term contracts instead of welcoming them to the 'standard' employee community. Moreover, the scandals coincided with the deregulation of labour dispatching in manufacturing, which enabled subcontracting agencies to continue providing the same service for manufacturers by re-labelling on-the-premise subcontracting as dispatching. The increase of manufacturing dispatching between 2005 and 2008 is astonishing as shown in Figure 4.6, because all major subcontracting agencies began dispatching services during this time. In 2007 and 2008, dispatched workers in manufacturing became the largest group, surpassing those who were dispatched for "operation of office machines" which had been the otherwise predominant category. However, the boom was short-lived. Manufacturing dispatching was heavily affected by the 2008 global financial crisis, which reduced the ratio of dispatched workers in manufacturing from about 28% in 2008 to 16% of the total in 2009. This ratio has not recovered much since because of the tightened regulations that followed in Phase 3.

Figure 4.6: Number of dispatched workers in three major occupation categories

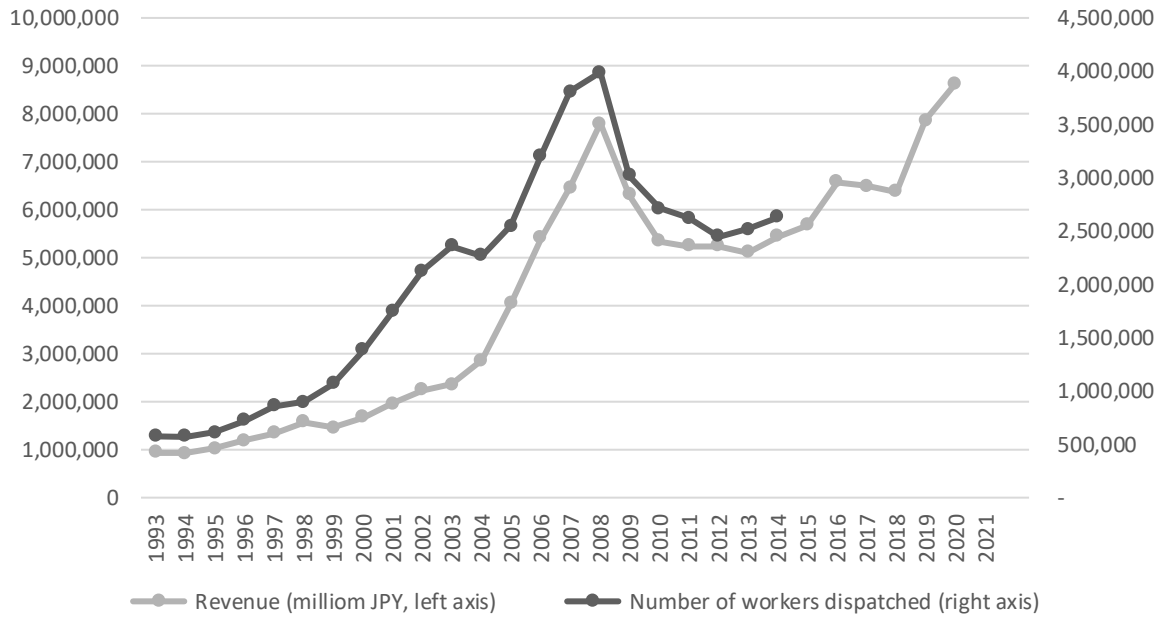


Data compiled from annual MHLW aggregation of business reports submitted by dispatching agencies

Boom and crash of labour dispatching services

A series of labour dispatching deregulations occurred during Phase 2, which mostly involved amendments to the Labour Dispatching Law, and there is a plethora of studies that trace the legal changes during this period, as discussed in chapter one. (The detailed legal changes are listed in Appendix C.) In this sub-section, I will focus on major events that characterized the 'dispatching boom' during Phase 2. The first amendment of the Labour Dispatching Law during Phase 2 expanded the permitted occupations from 16 to 26 in 1996, but more significant was the 1999 amendment that shifted from a so-called 'positive list' to 'negative list'. This meant that the list was changed from specifying permitted occupations to prohibited occupations, and as a result, labour dispatching became legal for any occupation that was not listed in this 'negative list'.

Figure 4.7: Number of workers dispatched and revenue of dispatching agencies



Data compiled from annual MHLW aggregation of business reports submitted by dispatching agencies

As shown in Figure 4.1 and Figure 4.7, labour dispatching agencies experienced the most drastic change during Phase 2, with a rapid growth from 1999, which was further accelerated in the mid-2000s, followed by a crash in the late-2000s. The accelerated growth was due to another major amendment of the Labour Dispatching Law in 2003 (enacted in 2004), which extended the length of the dispatching period for most occupations, eased permit application rules, and allowed pre-

selection of 'temp-to-perm'[47] dispatch workers by clients (details in Appendix C). Most notable was the lifting of dispatching prohibition in manufacturing, albeit with a one-year limit, which was extended to three years in 2007, resulting in a rapid increase of dispatched workers in manufacturing between 2005 and 2008, discussed above.

Within such a lax dispatching environment, various 'grey zone' dispatching practices arose. This included 'double dispatching', in which a recipient company re-dispatches workers to another company, causing fee subtraction twice from a worker's pay; 're-hire dispatching', in which an employer re-acquires its previous employees through a dispatching arrangement, increasing the risk of workers being arbitrarily laid off and moved to inferior employment conditions; 'self-dispatching', in which a company creates a dispatching agency that only serves its group companies, increasing its revenue as a group while reducing workers' pay; and 'specified dispatching', in which a worker is hired full-time by an agency and receives a salary even when not dispatched, which provides apparent employment stability and hence did not require government permit, but in reality, many of those agencies offered monthly renewable contracts with a minimum wage that could be terminated any time. Lastly, short-term dispatching, often pay-by-day, became popular among students and those who held other jobs because of its flexibility, but also created a group of workers who were trapped in this precarious arrangement. For example, a 2007 survey conducted by the Nippon Research Centre hinted at its contribution to increased homelessness because pay-per-day workers could not save enough money to afford the initial move-in cost to a home. According to MHLW, there were 93,455 pay-by-day dispatch workers in 2008, which was perhaps at its peak, and 70,297 in 2009.

These practices were not explicitly prohibited[48] during Phase 2, but their exploitative nature and possible association with other social problems such as 'NEET',[49] 'freeter', 'working poor', and 'internet café refugees' began to be spotlighted toward the end of Phase 2. In addition, a series of media reports and government investigations between 2006 and 2008 revealed prevalent malpractices of the 'big two' dispatching companies at the time. These two agencies, Fullcast and Goodwill, grew rapidly as short-term dispatching agencies during Phase 2, but their businesses were poorly managed. For example, they were reported to have regularly dispatched workers for prohibited occupations under the guise of other occupations, in particular, workers dispatched for cleaning ended up in construction jobs. Contrary to its name, Goodwill was one of the most

[47] In this arrangement, dispatched workers are expected to be switched to a direct employment contract with the recipient firm during or after the dispatching period of six months. In a sense, this system treats dispatching as a screening period for both employers and workers.
[48] Strictly speaking, 'double dispatching' was considered "worker supply services" prohibited by the Employment Security Act, but its enforcement did not begin until Phase 3.
[49] Not in Education, Employment, or Training.

problematic employment agencies at the time. Not only did they dispatch workers illegally, they were also reported to have deducted arbitrary fees from workers, refused to pay worker's compensation, transported workers on non-passenger cargo vehicles, forged workers' documents including driver's licenses, and so forth. While Fullcast was only temporarily suspended, Goodwill was prosecuted by the Tokyo District Public Prosecutors Office in 2008, and terminated its business the same year.

The 2008 global financial crisis was the final straw to end the 'dispatch boom'. Termination of dispatching contracts, many of them before the end date, was a common measure taken by employers to protect their 'regular' workers. The crash of the dispatching industry, in terms of number of clients, workers, and revenue, can be seen in Figure 4.1 and Figure 4.7, and in particular, dispatched workers in manufacturing were reduced to less than half between 2008 and 2009, shown in Figure 4.6. At that time, the government had already begun drafting new dispatching regulations in response to growing malpractices and scandals, and the newly arisen problem of 'dispatching cut-off' (*haken giri*)[50] after 2008 made the need for the tightening of regulations even stronger.[51] According to a text analysis conducted by Matsuura (2019), the amendment of the Labour Dispatching Law became a highly trendy topic in 2009 and 2010, covered in about 300 newspaper articles every month. I will discuss the pivoting back of dispatching regulations to worker protection in Phase 3.

Rise of precarious workers along with changing regulations and employers' needs

Before moving to Phase 3, I will summarise several key common features of Phase 2. Most notably, deregulation of employment agencies could be observed throughout, with the most significant being the legalisation of for-profit job intermediary services and a series of deregulations regarding labour dispatching services. Increased on-the-premise subcontracting and recruitment advertising services also remained unregulated for the most part. The result was the growing 'fashionable' image of a flexible lifestyle on the one hand, and the rise of precarious workers, 'grey zone' practices, and contract violations on the other. Toward the end of Phase 2, labour exploitation became heavily covered by media in association with other public concerns about inequality. These problems were soon vividly brought to light in the form of mass lay-offs and unemployment for

[50] Due to the 2008 global financial crisis, many employers decided to terminate dispatching contracts before the end of the contract period to cut costs and protect their 'regular' workers. The sudden rise of laid off dispatching workers became a social problem at the time.

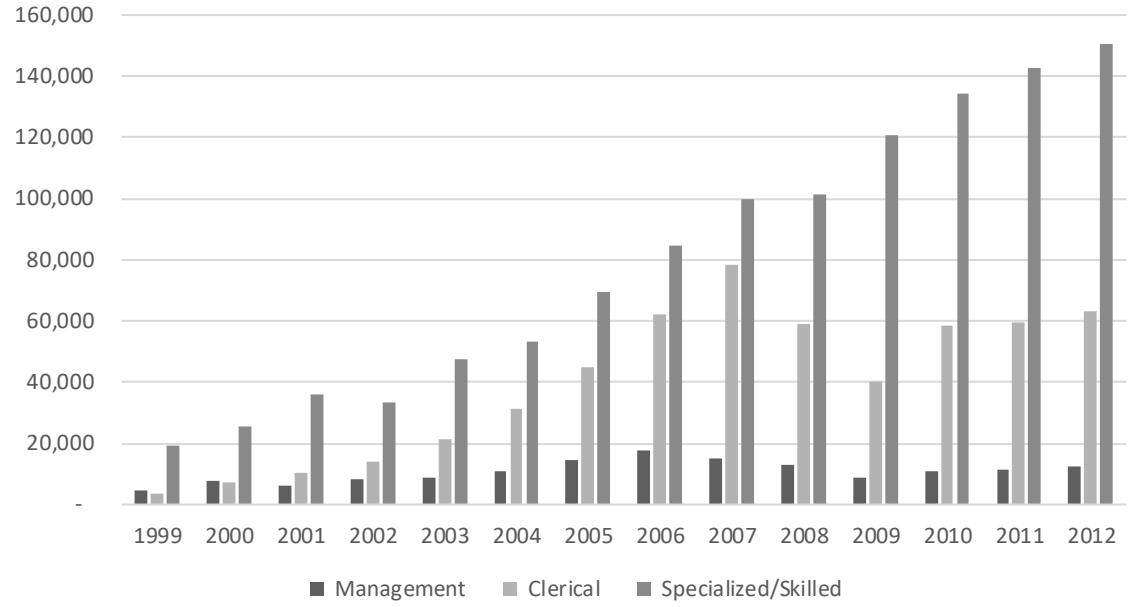
[51] The policy discussion process and the heightened sense of urgency after 2008 can be seen from the meeting minutes of the Council for Labour Policies, available at https://www.mhlw.go.jp/stf/shingi/shingi-rousei_126979old.html (Retrieved 20 March 2023).

'non-standard' workers during the 2008 global financial crisis, leading policy makers to more eagerly move away from their deregulation policies.

Relatedly, what was perceived as 'specialised skills' versus 'basic skills' changed greatly during Phase 2. For example, dispatched workers were considered specialists for the most part during Phase 1, but had become 'quick' and 'dispensable' workers during Phase 2, similar to subcontract workers. According to MHLW surveys, the top reasons for employers to utilise dispatched workers were "to quickly acquire worker replacements" and "to make temporary or seasonal workload adjustments", while "to utilise their specialised skills" ranked third (MHLW 2004 and 2008). Labour dispatching in manufacturing was perhaps the most volatile, but it is also worth highlighting the change in clerical workers. Until 2006, the largest number of dispatched workers had been those who possessed computer skills and were categorized under 'operation of office machines'. The demand for these workers was especially high during the paper-to-digital transfer period when all companies needed data input personnel. However, as computers became widely used, their status as 'office machine specialists' quickly faded away, and they became one of the first groups to be cut-off by employers during the 2008 global financial crisis, along with those in manufacturing, as shown in Figure 4.4 above.

The same can be observed for job intermediation of clerical workers. As shown in Figure 4.8, within the overall increase of white-collar workers, clerical workers grew quickly until 2007. Other than the digitalization factor mentioned above, this could also be due to the fact that the growth of employment agencies coincided with the end of the employment 'ice age' originally triggered by the burst of 'bubble' economy. This meant that in the mid- 2000s, it became more challenging to find employees, especially for small employers, making them turn to employment agencies, not just to find specialized workers, but to search for workers in general. Nonetheless, job intermediation of clerical workers was highly subject to economic fluctuations, and was reduced greatly in 2008 and 2009. In comparison, 'specialized/skilled' workers shown in Figure 4.8 and workers dispatched for 'software development' shown in Figure 4.4 continued to grow despite the financial crisis, although slightly and temporarily slowing down. Acknowledging the change in worker skill requirements and the blurred boundaries between 'specialised' and 'basic', as well as 'blue-collar' and 'white-collar', the MHLW has amended worker categorizations for data collection regarding job intermediation since 2013, and labour dispatching since 2015.

Figure 4.8: Three main categories of white-collar matches made



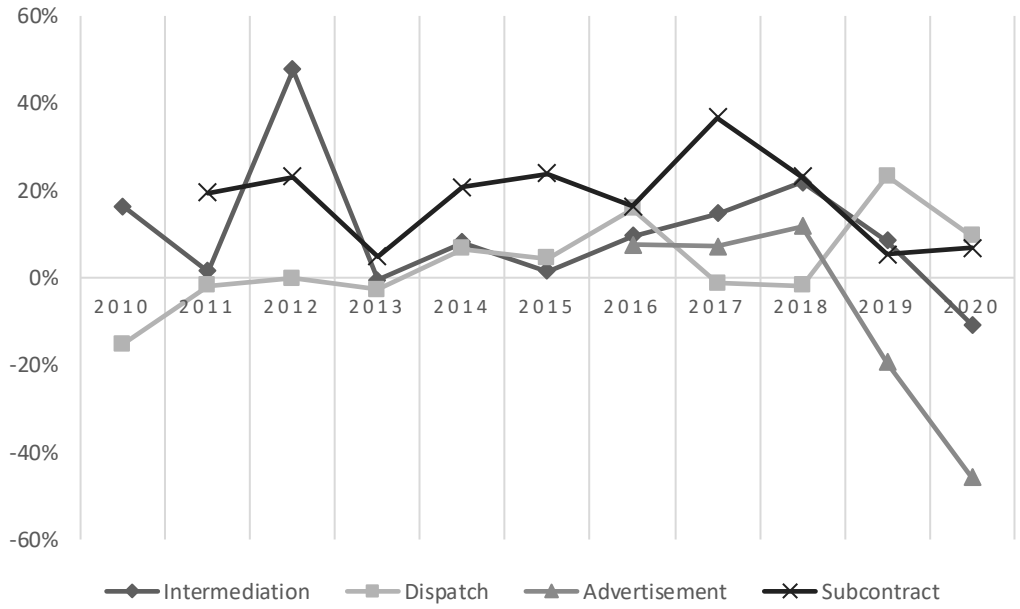
Data compiled from annual MHLW aggregation of business reports submitted by intermediary agencies

The deregulation and change of skill requirements during Phase 2 exacerbated the division between public and private employment agencies. While for-profit employment agencies quickly became the 'go to' place to search 'specialised' jobs, public employment agencies were viewed as a 'safety net' to solve unemployment problems. Some of their 'safety net' functions were even delegated from public to private agencies, further increasing the importance of for-profit employment agencies. The most notable example was the privatization of 're-employment support services', officially begun in 2003, in which the government subsidised employers to help their laid-off workers find new jobs. During Phase 2, re-allocation of 'regular' workers to affiliated employers became insufficient to meet the downsizing needs for many employers, so they sought employment agencies to take care of laid-off 'regular' workers. In 2002, when Japan's post-WWII unemployment rate had peaked, Pasona reported that one-third of their profit that year was made from their new "restructuring services" that assisted their client companies in laying off workers "smoothly" (interview; Pasona, 2003). However, the re-employment achieved during Phase 2 was mostly through 'non-standard' arrangements such as fixed-term, part-time, or dispatching, adding another aspect of employment agencies' contributions to the growth of potentially precarious employment in external labour markets.

Phase 3: Rebalancing deregulation and workers' protection (2010~)

To borrow the descriptors of my interviewees, employment agencies in Japan during Phase 3 have been growing "normally" and "peacefully" in a "saturated market" (interview, JA4). As discussed in chapter three, during my fieldwork the main motivation of large employment agencies in Japan was the maintenance of existing client relations, and their business growth was mostly a reaction to clients' increased need for flexible employment, rather than an effort to change employment practices proactively. The four types of employment agency services formed during Phase 2 continued to be the main business fields in Phase 3, which experienced steady growth for the most part, as shown in Figure 4.9. The re-tightened regulations to mitigate exploitative practices also contributed to market stability.

Figure 4.9: Revenue growth rate of four major services



Data compiled from IR reports of large employment agencies

However, this does not mean that employment agencies gave up on cultivating new markets. In this section, I will first highlight major regulatory changes, then provide examples of the efforts and intentions (or lack of) that I witnessed from agencies and employers to change employment practices.

Re-regulation of employment agencies and 'non-standard' employment

In response to the exploitative practices and precarious employment that arose as the result of the deregulations during Phase 2, a re-tightening of employment agency regulations can be

observed throughout Phase 3. This time, instead of banning for-profit employment agencies altogether as during the post-WWII period, the new regulations still acknowledged the usefulness of employment agencies while attempting to eliminate specific exploitative practices and the work condition gap between 'regular' and 'non-regular' workers. One of the most significant changes was the amendment of the Labour Contract Law in 2012, which mandated that employers offer an open-term employment contract to fixed-term workers when their contract renewals amounted to over five years of employment. Scholars and policy makers expected this policy change to greatly affect employment agency services by causing a mass termination of fixed-term contracts, but in reality, the change was not as significant, because many large employers were willing to make the shift to open-term contracts. In addition, the overall number of workers qualified for this shift was smaller than expected (interviews, JA3; JE1; JE7).

Similar to Phase 2, the Labour Dispatching Law was frequently amended during Phase 3, but this time the amendments were shifting away from deregulation. One of the foci of these amendments was to regulate or abolish 'grey zone' dispatching practices such as pay-by-day dispatching, re-hire dispatching, self-dispatching, and specified dispatching discussed in Phase 2. The initial draft amendment also suggested prohibiting dispatching of any worker who was not hired by an agency full-time, and banning dispatching in manufacturing altogether. Although these prohibitions were eliminated in the final draft, the stricter and convoluted regulatory changes certainly deterred many employers from using labour dispatching on a large scale. Another focus of these amendments was to raise the work standard of dispatched workers to that of 'regular' workers. The intention to prevent dispatched workers from replacing 'regular' workers remains, but has shifted from function-based (emphasis on employer's viewpoint) to individual-based (emphasis on worker's viewpoint) when considering dispatching length, jobs performed, wage and welfare, upgrading to direct employment, and so on (more details in Appendix C). This hints at the change of policy makers' motivations from protecting the status of 'regular' workers to protecting the rights of dispatched workers.

At the time of my fieldwork, many interviewees were preparing for the enactment of 'work-style reform'. One of the main regulatory aims was to prevent the ongoing problem of over-working in Japan, by setting overtime caps, annual leave mandates, flexible work time options, and so on. Another intention was to bridge the gap between 'standard' and 'non-standard' employment, as well as the gaps among different forms of 'non-standard' employment. It provided a standardized guideline encompassing part-time, fixed-term, and dispatched workers that had been regulated separately, as well as detailed categories to match their treatments with those of 'regular' workers, such as overtime pay, transportation cost, paid leave, and so on. However, most interviewees were

sceptical about achieving the 'equal pay for equal work' goal set by the new regulations, because the responsibilities and expected roles of 'regular' workers are different from those of 'non-regular' workers, even though they may be performing similar daily tasks for the most part. A survey conducted after the enactment of work-style reform laws revealed that over 80% of employers chose to decide a dispatched worker's salary through employer-worker negotiations rather than offering the same salary standard as 'regular' workers (JILPT, 2022b).[52]

Acknowledging the difficulty of defining the 'job territory' of 'regular' workers, the new guidelines only require matching the work conditions of 'standard' and 'non-standard' employment within an employer, instead of industry-wide (MHLW, 2016), delegating the determination of 'equal work' to each employer, although the difficulty within each employer remains. For example, an HR manager at a large employer showed me in detail his company's new wage system plan that reflected the 'work-style reform', which can be summarized as reducing the weight of years worked (*nenkō*) and increasing the weight of what he called "professional wages" decided by supervisors and HR managers based on qualifications and achievements (interview, JE2). This system could enable a faster promotion of young workers, and more flexible wage negotiation opportunities that may work in favour of 'non-standard' employees, but it appeared rather to be a modification of their current system that would not lead to any major change. The relatively drastic shift of the government motivation to regulate employment agencies and to protect worker's rights, which was reflected in the new policies throughout Phase 3, seem to have resulted in mild changes of agency and employer practices within existing employment systems.

Cultivation of new worker groups

As gaining new clients became more difficult, employment agencies placed more effort on expanding service options for existing clients by finding new worker groups, dividing existing services into more specialised categories, or combining services as 'solution' packages. One of the topics that I frequently encountered during my fieldwork in Japan was the use of foreign workers. A consulting company manager informed me that employment of foreign workers was the "hottest topic" in 2012 and 2013, which reflected the population decline that had begun in 2010 (interview, JA7). Between 2010 and 2020, the total number of foreign workers in Japan increased from about 650,000 to 1,724,000 (MHLW, 2010-2020), but they were predominantly family visa holders or 'technical intern trainees' with whom employment agencies are not directly involved. Instead, employment agencies focused on the recruitment of foreign students who had graduated from Japanese universities as

[52] The 'equal pay for equal work' regulations require employers to strictly match 'non-regular' workers' wage level to that of 'regular' workers based on job contents, or alternatively, allow the option of reaching wage agreement by negotiating with individual workers.

'regular' workers. According to an employment agency manager who promotes the use of foreign students, the need for foreign students changed from around 2017, from those who are fluent in Japanese and respect Japanese culture, to those who can actively contribute to innovation and global strategy with different viewpoints. One of the selling points he emphasized, in addition to language skills, was that foreign students generally come from wealthy families and can provide strong connections with their home countries. This can be seen from the statistics that have been published by the Immigration Services Agency of Japan (ISA) since 2014, which show that the largest number of foreign students hired in Japan have consistently been for 'marketing/sales' or 'translation/interpretation'.

The number of foreign students who obtained work visas in Japan more than doubled between 2014 and 2019, from 12,958 to 30,947, but they were mostly hired by small- and medium-sized employers with less than 300 employees (ISA, 2014-2019). This explains the disconnect between the employment agencies and large employers I interviewed in Japan, with the former being eager to promote the use of foreign students, but the latter remaining hesitant. Several managers at large employers recalled that they had experimentally increased the 'standard' employment of foreign workers in the early- to mid-2010s. One of the interviewees, an HR manager, tried to hire some foreign students who had graduated from Japanese universities as 'regular' workers, particularly Chinese and Indian nationals in 2014 and 2015, but none of them remained in the company long-term, because they could not adjust to the company culture (interview, JE3). He thought that his company was not likely to increase 'regular' foreign workers anytime soon, because they were still receiving enough job applications from Japanese students, and if this were to become insufficient in the future, they would increase mid-career hires before increasing foreign hires.

'Utilisation of the elderly' was another frequently mentioned topic by managers at both employment agencies and large employers. An HR manager at a manufacturing company recalled that the 2013 amendment of the Act on Stabilization of Employment of Elderly Persons was perhaps the most influential policy change to their employment strategies because it mandated that the company continue employing workers until they were 65 years old.[53] In response to this change, most employers chose to keep the retirement age at 60, but would re-employ retired workers as 'non-standard' employees at a significantly lower wage. According to Yamada (2009), when post-retirement employment was not yet a mandate, the majority of employers offered less than 60% of pre-retirement wages to the re-employed. At the time of my fieldwork in 2019-2020, an employment agency manager estimated that re-employed retired workers were earning half of their

[53] It gave the employers options to (1) continue the 'regular' employment relations until 65 years old, (2) keep the retirement age of 60 years old but re-employ retired workers until 65 years old, or (3) abolish retirement age altogether.

pre-retirement wage on average, and I even encountered a retired worker who was offered about 35 percent of his original wage, even though his jobs remained basically the same.

I was unable to determine whether employers were taking advantage of their retired workers, or the workers were over-paid for their jobs originally. However, my interviews with managers and workers confirmed the unwillingness of many large employers to continue employing their retired workers, even though they still wanted to work, which exacerbated the wage drop. Employment agencies have taken notice of this discrepancy, and have begun providing services specifically for matchmaking or dispatching workers aged above 60. Several agency managers informed me that they have been the most successful at matching workers who have retired from large companies with smaller employers that have been struggling to find skilled employees, and are hence willing to pay a higher wage (interviews, JA1; JA3; JA5). One of the managers even introduced me to a worker that he helped, who had retired from a large research institute in Japan and happily moved to the UK as a venture company worker, receiving higher income than in Japan. However, most retired workers are hesitant to change workplaces, let along countries, and choose to remain with their original company despite lower wages.

The pattern of moving from large to small employers also applies to job intermediary services of mid-career management-level employment, through which middle management workers at large companies gain executive positions at smaller companies. A Recruit manager informed me that this high-level mid-career matchmaking service is one of their fastest growing business fields in recent years. An analyst at another job intermediary agency, JAC Recruitment, demonstrated that the number of matches they made for 'middle-aged high-income'[54] jobs grew by over four times between 2013 and 2021 (Kurosawa, 2022). A recent survey on 'regular' workers who had changed jobs in the past three years showed that the most frequently used resource was 'private employment agencies' followed by 'employer websites' then 'Hello Work', pointing at the increased influence of employment agencies in the field of mid-career job changes (Fujimoto, 2022).

Combination and diversification of existing services

The increased success of matchmaking was partially due to the massive databases accumulated by employment agencies, which enabled them to provide job intermediary services combined with other online tools to help improve success rates. The tendency of employment agencies to bundle up existing services was also confirmed by managers at large employers, who had experienced an increase of 'add-on' sales from agency representatives in recent years (interviews, JE2; JE7; JE9). For example, when they enquired about posting a recruitment advertisement, they

[54] Defined as age 35-54 and annual income of eight million JPY or more.

would receive recommendations for certain advertising venues in conjunction with purchasing the 'scouting' option to browse resume databases, or job intermediary/headhunting services to actively and quickly find the right worker. Another example was 're-employment support services' discussed in Phase 2; this service is categorized as 'outplacement' today, and often packaged as matchmaking, consulting, and training services to support re-employment of laid-off workers on behalf of their former employers.

In contrast, recruitment advertising service itself has stagnated during Phase 3 for large employment agencies due to rising competition. Unlike other major employment agency services, the creation of online job advertising platforms does not necessarily require a large initial investment, which led IT venture companies to build various online advertising platforms with small, specific target groups. The most frequently mentioned company during my fieldwork was BizReach, created in 2009, which targets employers and headhunters looking for 'high-class' professionals. It also launched an employment management 'cloud' system called HRMOS in 2016, and restructured to a holding company called Visional in 2020. Between 2017 and 2021, their revenue increased from about 15.7 billion JPY to 44 billion JPY, which coincided with the increase of mid-career management-level job transfers discussed above, resulting in it quickly becoming one of the highest earning employment agencies in Japan.

Some other growing online recruitment platforms targeting specific worker groups include *rejob* (run by ZIGExN) for beauty and healthcare workers, *Green* (run by Atrae) for IT workers, and LITALICO for disabled workers. At the time of my fieldwork, a former editor of several recruitment magazines at Recruit was starting up a new project specifically aiming at the work-style change of landladies (*okami-san*) in traditional Japanese inns. She told me that the growing number of foreign tourists who want to stay in traditional inns had become too burdensome for the ageing landladies, so she attempted to create a part-time landlady recruitment and management platform jointly organized by Recruit's popular travel information website, *Jalan net*. This project was put on pause due to COVID-19, but still serves as an example of how employment agencies have been trying to create new services by finding specific target groups, patchworking existing services from various fields, and developing more online tools.

An HR manager at a large engineering company showed me in detail how their use of employment agencies has changed. They rarely use job advertising services anymore because it became less cost-effective; he complained that the employment databases became too large and messy to navigate, and their posted advertisements were often buried among many others, yet they still had to pay advertising fees even when they could not find any workers (interview, JE9). Instead, their recent approach has been to build closer relationships with smaller agencies that specialise in

certain worker groups that they tend to need. He named two agencies off-record for hiring new graduates, neither of which I had heard of before; one was created in Phase 2 with a focus on social science students, and the other was created in Phase 3 with strong connections to electronic engineering students. He had been using them as on-demand assistants during the busiest recruitment season for tasks such as leaflet and website making, interview receptions, and introducing the company at recruitment events, but had begun asking them to participate in the actual interviews, selection meetings, and interview follow-ups since around 2016 and 2017. He was secretly hoping that the closer relationships with these agencies would increase the chance of agencies recommending his company to more students, particularly through interview follow-ups. Mid-career recruitment practices were more varied because it was delegated to each local office, but he confirmed that, at least in Tokyo, they recently increased the use of smaller job intermediary agencies, such as Quick and Adoption, that have strong connections with certain technical workers.

Expansion attempts beyond existing markets

The above examples showcase that the expansion and diversification of services can be observed in 'external' labour markets that address 'non-standard' employment, and in part of 'quasi-internal' labour markets that mostly address mid-career hiring together with some supportive roles in standardized new graduate hiring. Any service that may influence an employer's HR strategy was often provided as an addition to these services, limiting its significance within 'internal' labour markets. For example, as mentioned in chapter three, the main business of RMS (a group company of Recruit that specialises in 'non-traditional' services such as consulting, seminar hosting, and evaluations) during Phase 3 has been seminar hosting, through which they discuss various HR-related topics but are not directly involved in client's strategic changes.

The development of HR management software has been another attempt to participate in 'internal' labour markets. In fact, most employers were using the standardized online new graduate application system designed by Recruit (*Rikunabi*) to some degree, which can be connected to agency services for recruitment follow-up and analysis, then internal employment management systems. However, other than one interviewee mentioning that he was interested in *kaonavi,* an HR management system funded by Recruit, I did not encounter any large employers using such services, which indicates that these software were perhaps used at smaller employers or at the branch-level.

With the domestic market stabilizing, it was natural that employment agencies, especially the large ones, sought to expand abroad. This was mainly carried out through joint ventures and acquisitions to quickly adjust to different local regulations and practices. For example, Persol has created several joint ventures with Kelly Services, one of the largest staffing agencies in the world, to

expand businesses in Asia and the Pacific regions throughout Phase 3; overseas expansion through M&A has become one of the core company strategies of Technopro since 2018, leading to a series of acquisitions of foreign agencies in addition to some domestic ones that have had connections abroad since that year.

Overseas business growth of Recruit has been especially astonishing. Among the long list of companies acquired by Recruit since 2010, the acquisition of Indeed[55] in 2012, a US-based online recruitment platform, and Glassdoor in 2018, a US-based employee reviewing website, have particularly contributed to their revenue. Between 2010 and 2020, the ratio of its overseas revenue increased from about 3% to 55% of total revenue, showing its strengthened global focus. These examples show that despite the efforts of employment agencies to rearrange existing services throughout Phase 3, more drastic changes can be caused by expansion into 'internal' labour markets and especially foreign markets.

Conclusion and potential transition to Phase 4

This chapter traced the evolution of for-profit employment agencies in Japan from the perspectives of employment agency practises, utilisation of agency services by employers, and relevant policy changes. Most of today's major employment agencies were created during Phase 1, soon after the slowing down of Japan's economic growth and the institutionalisation of 'standard' employment relations. The establishment and expansion of the four types of 'traditional' employment agency services were greatly accelerated during Phase 2 along with a series of deregulatory policies. Due to the rise of exploitative practices, employment agency-related policies have shifted toward the protection of 'non-standard' workers during Phase 3, but have not affected the existing 'traditional' service categories through which employment agencies continue to grow steadily. Recent agency activities include the increase and diversification of tailored services according to each client's specific needs, and attempts to expand by cultivating clients abroad and new worker groups domestically, rather than fundamentally changing existing labour market systems.

The motivation to 'flexibilize' labour markets was perhaps the most aligned among various labour market actors during Phase 2, which explains why the most dramatic and unregulated growth of employment agencies occurred during that period. In contrast, while employment agencies were consistently pushing for flexible labour markets, the focus of other major actors, such as large

[55] A product development manager at Recruit informed me that "the *Indeed* platform is growing faster and is more profitable than any of us predicted. Purchasing *Indeed* was one of the best decisions our company made" (interview, April 2019).

employers, government organizations, and labour unions, was the maintenance of 'standard' employment during Phase 1. The government's motivation to protect the rights of 'non-standard' employees arose during Phase 3, which was clearly reflected in policy changes, but not as significantly in the practices of employment agencies and employers.

So far, the tracing of co-evolving regulations and practices shows that most policies were created reactively to new agency practices, and were effective in both encouraging and regulating their behaviours during Phase 1 and 2. However, the reactive policies set by the government during Phase 3 to protect 'non-regular' workers have yet to be fully reflected in the practices of employment agencies and employers. This hints that the effectiveness of employment agency-related policies is reliant upon whether or not employers change their practices according to the policies, instead of agencies making proactive decisions to follow regulations. Influences in the opposite direction, from agencies to policy makers, have also been low, especially compared to China, which I will discuss in the next chapter.

Increased flexible employment practices by large employers, combined with government policies to support such practices while protecting 'non-regular' workers, may accelerate the institutional *layering* of 'non-standard' over 'standard' employment in the future, leading to the further growth of business opportunities and associated influences of employment agencies. In the short run, I expect that existing employment agency services will continue to grow along with the increase of mid-career job changes and 'non-standard' employment practices, but a more drastic change into a possible Phase 4 may be triggered by the decay of the existing 'standard' and 'non-standard' divide. Some early signs of motion toward a Phase 4 are the termination of standardized new graduate hiring rules beginning in 2021, as declared by the Japan Business Federation; 'job-based' employment, the practice of hiring workers based on specific jobs needed in contrast to the existing 'membership-based' employment, which was frequently discussed by all labour market actors during my fieldwork; the allowance of side jobs to be included in the 'model' office guidance provided by the MHLW since 2018; the issuing of work visas for foreign students as 'low skill' workers at restaurants, retailers, manufacturers, and so on, as announced by the Immigration Services Agency in 2019; and the shift to a remote work-style, which quickly developed due to COVID-19 and has become the preferred arrangement for many workers. All these changes foreshadow the further weakening of 'Japanese-style' employment systems and company 'communities', which will provide employment agencies with more opportunities to create new ways to connect employers with workers and promote employment flexibility and labour market mobility. A more recent, holistic, and ambitious policy toward this direction, the 'trinity' reform of labour markets announced in 2023, will be discussed at the end of chapter six.

Chapter Five: Evolution of employment agencies in China

Following the pattern of the previous chapter on Japan, this chapter will discuss the three phases of employment agency evolution in China. While changes were carried out gradually, the key features observed within each phase were drastically different. I will first trace the creation of the initial batch of employment agencies set up by various levels of governments after the 'reform and opening-up' in Phase 1 (until the mid-1990s), then discuss the emergence of variegated services by new state-owned and privately owned employment agencies along with the accelerated marketization in Phase 2 (mid-1990s to 2000s). Because origins and initial motivations differed greatly depending on the ownership of agencies, I have sub-divided Phase 2 by ownership instead of function to highlight their original differences. I will showcase the further expansion of employment agency services and their rapid adoption of internet technologies in Phase 3 (from around 2010 on) using my fieldwork findings and secondary data. Lastly, some speculations for the possible development of a Phase 4 will be listed in conclusion.

Phase 1: Exploratory growth of agencies within restricted environments (~mid 1990s)

The birth of employment agencies in China differed from Japan. The strong persistence of government-led employment, combined with a lack of centralised guidance to navigate labour market changes after the 1978 'reform and opening-up', led individual local governments to create a series of small, experimental organisations to handle their local needs. These early precursors of state-owned employment agencies had two types of backgrounds: some were established and licensed to serve foreign companies, but the majority of them handled their imminent unemployment problems locally. Until the mid-1990s, local governments were the main builders and leaders of employment agencies, and there was little room for private businesses to grow. This section will first briefly point out the continuity of the government's 'non-standard' employment practices since the planned economy era, then move on to discuss in depth the birth of the two types of employment agencies, and finally highlight some contextual changes leading to Phase 2.

Continuity of flexible employment: the planned economy era (1949-1978)

Before discussing the birth of employment agencies, which occurred after the 1978 'reform and opening-up', I will first present some examples of 'non-standard' employment practices before the reform to showcase the continuity of economic and political motivations to utilise flexible workers. Similar to Japan, job introduction practices were not new. Even at the height of lifetime 'regular' employment during the planned economy era in the 1950s and 1960s, 'non-standard'

employment never disappeared, and its ratio within SOEs fluctuated between 5% and 20% (Walder, 1988).

During this period, the government's intention to support flexible employment practices was focused more heavily on dealing with unemployment problems than seeking efficiency. However, it unintentionally led to a large divide not only between 'regular' and 'non-regular' workers but also within 'non-regular' workers, with direct-hires (such as temporary workers) receiving better treatment than non-direct-hires (such as outsourced workers). In the 1950s and 1960s, employment relations for temporary workers were institutionalised to manage those who were excluded from 'standard' *danwei* employment, and when there were mass layoffs of temporary workers, local and sectoral bureaus often promoted the use of outsourced workers by organizing 'labour service teams' to absorb the unemployed, who were then sent to their affiliated SOEs; these workers were considered 'cheap' and 'dispensable' labour, and received about one third of a direct-hire's wage and no welfare (interview, CE3). Some rural communes have also been documented to send workers to urban SOEs, while deducting 60-70% of workers' earning as their management fees (Feng, 2018). In a way, these public organizations behaved like employment agencies that provided dispatching, subcontracting, and outsourcing services, although these service distinctions were not yet established.

The government-led 'non-standard' employment practices to reduce unemployment coincided with the motivations of SOEs that still continue to this day. In addition to general cost-cutting and workload adjustment through maintaining a flexible worker pool, SOEs used workers hired by third-party organizations as a means of evading regulations. This way they were able to obtain more workers after reaching the 'standard' employment cap set by the government (and later, a cap of directly-hired temporary employment as well), and to bypass complex recruitment processes including exams, interviews, and background checks for health, obedience, political history, and so forth. Moreover, the increase of outsourced workers during the planned economy era correlated with the introduction of stricter policies to protect the rights of 'regular' workers and temporary workers (Feng, 2018). These examples show that underneath the apparent drastic changes brought by China's 'reform and opening-up' lay the less explicit continuity of employers' motivations and practices to encourage and, in many cases, take advantage of 'non-regular' workers through third-party organisations such as employment agencies.

Incremental changes of early labour market reforms (1978 – mid-1990s)

The 1978 'reform and opening-up' policy led by Deng Xiaoping marked a significant shift in China's market strategy, though the actual reform was carried out incrementally. The legacy of the

planned economy persisted strongly, and any market- and profit-oriented changes were first introduced experimentally on a small scale within a contained environment. One of the most notable changes was the establishment of 'special economic zones' and 'coastal open economic areas' where China welcomed foreign businesses with preferential policies. First created in Shenzhen, Zhuhai, Shantou, and Xiamen in 1980, the 'opened-up' areas expanded to 14 more coastal port cities in 1984, and 260 counties and cities in 1987. It was considered a medium through which China could "import foreign technology, obtain knowledge, and learn management" (*Selected Works of Deng Xiaoping,* 1983: 122). The government also abolished the prohibition of 'labour exporting' in 1978, and began sending workers overseas as a part of an 'open' foreign policy (Men, 2020). A new batch of employment agencies were created during this time to serve incoming foreign companies and to organize domestic workers travelling abroad, which I will refer to as 'foreign service' agencies.

Domestically, the 'three-in-one' (*san jie he*) employment policy was announced in 1980,[56] shifting away from government-led job allocation to market-oriented recruitment practices. Under this policy, workers were encouraged to (1) apply for jobs directly, (2) seek employment through newly established public labour service institutes, or (3) become self-employed. This policy change was a way to tackle the sudden increase of urban unemployment, mainly caused by the millions of returning youths who had been sent to rural areas to "learn from peasants" during the Cultural Revolution (Ding and Warner, 2001: 319). Urban unemployment was further accelerated by the increase of migrant workers as a result of rural reform, which included the dismantling of communes into private and collective enterprises, and the introduction of household responsibility systems for agricultural production. This enabled many rural households to send some members to urban factories for extra earnings while the rest remained on the farm (interview, CO1). As will be addressed later in this chapter, in order to handle these 'sent-down youths' and migrant workers, various public organizations were created throughout China, some of which later transformed into the dominant employment agencies in their region.

In addition to the abovementioned marketization of external and 'quasi-internal' labour markets, policy changes created to 'smash the iron rice bowl' were introduced as a part of SOE reform to increase productivity and profitability. In order to increase worker incentives, bonuses that had been banned during the Cultural Revolution were re-introduced in urban areas in 1978, albeit with a cap of 2.3% of the basic wage, which was raised over the years to 17.2% by 1988 (Pringle, 2011). In addition, a performance-based pay system was piloted in 1984, and extended to

[56] 'Further Employment on Urban Town Labourers' published in 1980 after the Convention on National Labour and Employment.

about 30% of SOE workers by 1988 (Szapary et al, 1991). At the same time, a labour contract system for some 'skilled' workers was piloted in Shanghai and eight other provinces in 1980, was applied nationwide to all newly hired 'skilled' SOE workers in 1983, and all SOE workers in 1986 (Pringle, 2011). Also in 1986, SOE managers were given the right to dismiss employees, which ended the security of the 'iron rice bowl', at least on paper.

However, despite these policy makers' intentions to make contract workers the new 'regular' form of employment, many SOE managers were reluctant to change. Some genuinely felt sorry for the workers, and others did not want the trouble of upsetting workers by terminating their accustomed lifetime employment (interviews, CE2; CE8; CE13). The managers tried to delay the transition in various ways such as offering long-term contracts of more than ten years, making exemptions for those with higher education degrees, prioritizing existing employees and their family members for filling new positions, maximizing the grace period or only meeting the bare minimum requirement of the new employment policy implementation, increasing wages to compensate the loss of employment security, and so forth. As a result, the ratio increase of contract workers in SOEs was gradual, from about 5% in 1986, 10% in 1988, 15% in 1991, and 25% in 1994 (Bureau of Statistics), and the stability of 'standard' employment is still maintained to this day in SOEs, because it became customary (and later, legally required) to renew contracts and 'upgrade' them to lifetime employment after a certain number of renewals (Cliff, 2015; interview, CE1).

The implementation and regulation of contract-based employment relations were carried out even less eagerly by non-SOEs. Newly established small-scale private employers were not required to provide labour contracts for their workers during the early reform period, and did not have any wage and welfare guidelines to follow. Most of them took advantage of the increase of unemployed youths, rural migrants, and laid-off SOE workers by hiring workers informally, and placing them in much less desirable conditions. Policy makers were not motivated to regulate labour markets and employment relations for non-SOEs as they were new, experimental, and seemed to be advantageous for achieving immediate economic growth, attracting foreign investment, and reducing unemployment (Chang, 2004). Consequently, during this period China experienced a coexistence of the persistent 'iron rice bowl' with the gradually introduced, contract-based employment within SOEs (*neo-Danwei*), and the new, unregulated, privatized labour markets that legitimized 'non-standard', precarious, flexible employment relations and prompted the growth of employment agencies.

Birth of employment agencies for foreign services

Amid these changes, several types of employment agencies were formed. The most notable was the creation of a new batch of 'foreign service' SOEs between 1979 and 1989, with six SOEs licensed to supply local workers to the incoming foreign companies, and eight SOEs licensed to send workers to foreign countries. The former six formed the first employment agency association in 1989 (China Association of Foreign Service Trades), which grew to be one of the largest employment agency associations today. Although these 'foreign service' agencies expanded to provide a much wider range of services in Phase 2 and 3, at first their businesses were small, experimental, and uncertain.[57] The early stage of their development is not well documented, but I was able to visit three of them during my fieldwork, meet their current or retired general managers, and record an oral history. The three agencies I visited were FESCO (Beijing Foreign Enterprise Human Resources Service Co., Ltd.), Ciic (China International Intellectech Group Co., Ltd.), and CJI (China Jiangsu International Economic and Technical Cooperation Group, Ltd.).

The differences in each state-owned employment agencies' development owed largely to government policies, availability of clients, and personal connections between managers and local government leaders. FESCO is the oldest and perhaps the most frequently studied employment agency in China, as it was the first agency to have supplied local workers to foreign companies in China (for example, Chang, 1999). Founded in 1979 by the Beijing municipal government, FESCO enjoyed strong government protection throughout its early development years. Until 1995, it was the only employment agency that was allowed by the Beijing municipal government to dispatch local Chinese workers to foreign companies located in Beijing. Combined with national prohibition of the direct hiring of Chinese workers by foreign companies,[58] FESCO monopolized its position as an official channel to connect foreign companies and local workers in Beijing during this period.

It was natural that FESCO grew along with the increase of incoming foreign companies in Beijing, and remained in Beijing to enjoy its advantageous status. Other employment agencies operating in Beijing during this time had to gain foreign clients informally or seek employment-related business opportunities in less regulated fields or outside Beijing. Unlike FESCO which received strong support by the Beijing municipal government, Ciic, created by the central government in Beijing in 1987 as an experiment to follow FESCO's successful footsteps, was left to

[57] A retired vice CEO told me that "even I couldn't find any early company records. From what I remember and what I hear other old workers say, our first 15 years were rocky. There was no concept of strategy, and we just relied on the manager's capacity to get any jobs he could from the government through his personal connections" (interview, CA1).

[58] The 1980 Temporary Stipulations on Offices of Foreign Companies in China states that foreign company offices in China must rent office spaces and hire employees through the local foreign affairs office or local government-appointed work units.

explore business opportunities on its own. Consequently, although FESCO and Ciic were created to perform similar functions – supplying labour to foreign companies – these two state-owned, Beijing-based employment agencies developed differently in their early years.

Ciic soon faced the reality of FESCO's monopoly in Beijing and decided to expand its operation in Shanghai, where local regulations were more open for all state-owned employment agencies. The former general manager of Ciic informed me that during this time, while their labour dispatching in Shanghai was fairly successful, Ciic workers who remained in Beijing struggled to find business opportunities. They relied mostly on personal connections to gain clients, and survived for the most part by providing visa services to the government-organized study abroad programs. Because Ciic did not have a strong corporate strategy or government support during this period, business development relied heavily upon its leader. Among several people that took charge in the early years, Ciic's business expanded when its head was appointed for his ability and ambition, and stagnated when he was chosen by personal connection. Even though Ciic is one of the largest and most influential employment agencies today, its development was slow at first. By 1995, it only had less than 100 employees, and in 2019, approximately 6,000 employees.

The third 'foreign service' agency, CJI, was founded in 1980 in Nanjing by the Jiangsu provincial government to send local workers abroad, instead of supplying foreign companies in China like FESCO and Ciic. At that time, as part of the 'open' foreign policy, the central government gradually began to test the waters for sending workers to Africa and the Middle East, mainly for construction projects, to develop relationships as "economic and political partners" (Men, 2020: 86). During the 1980s, CJI secured its position as a labour supplier for China's construction projects in Iraq, Kuwait, Tanzania, and Mauritius.[59] Like all SOEs during this period, their business was allocated by the government instead of through bidding, and the close relationships between the then CJI managers and the local governments, particularly the Jiangsu provincial government and Nanjing municipal government, played an important part in securing large projects. The close ties were built by periodic visits of government officials, formal and informal get-togethers, and re-allocation of managers between CJI and the local governments. A retired CJI vice president lamented that these connections have been significantly weakened since the establishment of SASAC[60] and the introduction of bidding systems in the 2000s, which will be further discussed in Phase 2.

[59] My interviewee at CJI, a retired vice president, was sent to Mauritius as a punishment for making a political mistake in 1989, but he said it turned out to be the best few years of his life.

[60] State-owned Assets Supervision and Administration Commission of the State Council (SASAC), established in 2003, acting as shareholder of SOEs. It created a buffer between SOEs and associated government bureaus/departments that had been previously managing SOEs.

Birth of employment agencies for domestic services

While only a few agencies were initially licensed to provide services to foreign companies, there were no nationwide regulations on employment agencies targeting domestic employers and workers until the early 1990s. Consequently, various levels of local authorities, from residential districts to municipal and provincial governments, created new, small, and experimental labour service units to meet the imminent changes to their local employment needs triggered by the 1980 'three-in-one' policy discussed above. Although they all had a general goal of solving the local unemployment problem, each unit functioned differently depending on the local government's priority. While some labour service units continued to only perform their original public service roles, others later grew to be profitable state-owned employment agencies. In this section, I will list some examples of these labour service units and their limited initial roles.

The oldest documented public labour service unit was established in 1978 by the Xuhui district government in Shanghai as an immediate response to the announcement of the 'three-in-one' policy, and served as a job intermediary unit specifically for the returned 'sent-down youths' (Xiao and Tan, 1979). Later in the same year, Longtan district government in Nanjing created a labour service unit for laid-off SOE workers, but instead of connecting them with new jobs, its role was limited mostly to keeping personnel archives[61] and issuing certificates (Xiao, 2021). Similar local units were created throughout urban China in the early 1980s in response to the increase of unemployed youth and laid-off SOE workers. In addition, 'labour exchange centres' were created by both rural and urban governments as the senders and receivers of migrant workers respectively, to coordinate and regulate their transfer from farm to factory (Xu, 2009).

While these labour service units were mostly established for record keeping and some job intermediating purposes within a targeted worker group, the first comprehensive labour service unit was created in 1983 by the Shenyang municipal government, with an extended operation to cover north-eastern China, which had experienced the largest-scale SOE lay-offs at that time (interview, CO 1). With the attempt to solve the overall unemployment problem in the region, it took on job intermediation, job advertising, recruitment event organization, personnel archive management, and so on, and served unemployed workers of all sorts of statuses. Being the poorest region in China however, employment opportunities were limited, and most job seekers ended up as 'non-regular'

[61] Personnel records (*dang'an*) were an integral part of employment during the planned economy era, and were kept by the employer. However, at the beginning of SOE lay-offs, employers realised they did not have a means to handle the files of laid-off workers, which led to the creation of labour service units for recordkeeping purposes. Similar units were created throughout the country in the 1980s because they were facing the same problem of not having a place to keep *dang'an.*

SOE workers, 'informal' workers[62] for private employers, or self-employed (interview, CA1; CA11; CO1).

Other units were created to attract workers with higher education and skills, who were often referred to as 'talent' instead of 'labour'. Since the termination of job allocation systems, hiring 'talent' has become an ongoing challenge for many employers, especially in rapidly growing regions that did not have universities. A government officer from the former Shenzhen Bureau of Personnel recalled that building new universities was not practical, so instead they used their abundant funding to send recruitment teams to existing universities nationwide and create incentives to attract 'talent'. The first Talent Exchange Service Centre was created by the Guangdong provincial government in 1983 to hire engineers and managers in the 'special economic zones' and surrounding areas, followed by the Shenzhen Bureau of Personnel independently organizing the Talent Service Centre in 1984.

The Shenzhen Bureau of Personnel also launched the Shenzhen General Talents Market in 1991, which was the first permanent 'talent market' venue in China, taking the form of a year-round job fair in a designated building. As the government was gradually shifting away from the job allocation system, which ended nationwide in 1993, this 'talent market' soon became the 'go-to' place for all job-seekers and employers in the area for 'matchmaking', and following this example, similar 'talent markets' were built throughout China during Phase 2. Until the shift to online-based services in the early 2010s, the sight of never-ending crowds gathering in and around the talent market building must have been very memorable, as most of my interviewees in Shenzhen mentioned it, and they wished I could have seen and felt the vibrancy. Today, the Shenzhen General Talents Market has further expanded and changed its name to Shenzhen Talent Group Co., Ltd., one of the most dominant employment agencies in Shenzhen.

Experimental growth within restricted environments

It is worth emphasising that the abovementioned employment agencies and their precursors were all run by various levels of governments. By learning from each other's practice and experience, these experimental organizations sprouted nationwide in the 1980s and began to settle their forms by the early 1990s, which could be roughly divided into job introduction units, personnel recordkeeping units, and 'talent' recruitment centres in addition to 'foreign service' agencies. They were created in response to the specific local needs that arose as a result of the 1978 reforms, rather than as a proactive improvement of their labour markets. In addition, although there were no

[62] 'Informal workers' generally refers to unregistered workers who do not hold written employment contracts, and are excluded from social welfare. Park and Cai (2011) estimated that in the 2000s, before the implementation of the Labour Contract Law, nearly half of urban employment was informal.

explicit policies to define or regulate employment agencies in the 1980s, these employment-related roles were assumed to be performed by the government, or at least run under government supervision when collectively organised by employers and workers, which shows the persistence of the planned economy era's customary norms and behaviour.

During this early stage, the 'triangle' employment relationship among agency, worker, and employer varied case-by-case, and could not yet be defined by the categories listed in chapter three. For example, the first decade of FESCO's labour provision service took a form similar to Japan's 'specified dispatching' arrangement described in chapter four; the dispatched workers were hired by FESCO as permanent employees similar to other 'regular' SOE workers, and enjoyed stable income and welfare even when they were not dispatched or regardless of the job they performed when dispatched. Another example is the migrant worker management practices of job introduction units; functionally, many of them acted as labour dispatching agencies by deciding who to send to where, and by providing wages and welfare on behalf of the employer, but the workers were considered direct-hires of their recipient companies. These varied labour provision practices in Phase 1 slowly began consolidating into 'traditional' job intermediary and dispatching services during Phase 2.

A former policy maker in Beijing recalled that while the central government was taking a 'wait and see' stance on employment agencies' development in the 1980s, they held study groups to learn from Japan, where for-profit job intermediaries and dispatching were prohibited at the time, and affirmed that job introduction services should be performed as part of public service. After this 'wait and see' period to confirm usefulness and general practice, a series of policies were announced by the central government in the early 1990s to encourage and regulate these organizations. These policies included the 1990 Provisions on the Administration of Enterprises Offering Labour by the State Council to support the organization of collectively owned labour service units, the 1990 Interim Provisions on Job Intermediary Services by the Ministry of Labour to outline the duties of government-run job intermediary institutes, and the 1991 Notice of Strengthening the Conduct of Talent Recruitment and Management by the Ministry of Personnel to regulate local bureaus' 'talent' acquisition methods.

The strong norm of government-led development, combined with a lack of know-how and institutional support, left little room for private employment agencies to become established during this period, even though there was no clear prohibition to do so. Most privately run employment-related businesses in the 1980s, or so-called 'labour brokers', were unregistered and often illegal individual dealers targeting migrant workers (Xu, 2009). The first registered private job intermediary business was recorded in 1987 in Wenzhou, Zhejiang, but the 'booming' of private employment agencies did not come until Phase 2, to which I will now turn.

Phase 2: Agency boom along with marketization (mid 1990s – 2000s)

Many interviewees recalled Deng's southern tour in 1992 and China's accession to the WTO in 2001 as the two most memorable events that influenced their regional and corporate strategies. The former gave local governments and SOE leaders the confidence to more aggressively develop market-oriented employment policies, and the latter turned their attention to the 'global standards' of HR management (Gallagher 2005; interviews). On a national level, the 1992 Regulations for Transforming Managerial Mechanisms of State Owned Enterprises greatly increased the discretion of internal HR management for SOEs (Chen, 1995), and the 1995 Labour Law of the People's Republic of China is viewed by many scholars as the landmark of 'smashing the iron rice bowl', SOE restructuring, and labour market flexibilization (for example, You 2007: 503; Kuruvilla et al, 2011; Liu, 2014; Li, 2015). On one hand, the Labour Law offered legal protection for workers not only in SOEs but in private sectors; on the other hand, its loopholes provided employers with a legal basis for dismissing workers, and ways to avoid signing contracts by using employment agencies, which resulted in a rapid increase of laid-off workers and precarious workers during Phase 2. It is estimated that in 2007, prior to the enactment of the Labour Contract Law, the majority of workers either held short-term contracts or no contracts at all (Friedman and Lee, 2010).

Similar to Japan, employment agencies experienced the most dramatic changes during Phase 2, and greatly contributed to labour market flexibilization, as China accelerated globalization, marketization, and privatization. In addition to government-run employment agencies, Phase 2 saw a rapid emergence of SOE-run and privately-run agencies. The development of these agencies was mostly unregulated, even encouraged by the government as a new means to solve unemployment by cultivating the rising 'external' flexible labour market. However, it not only resulted in an indiscriminate creation of employment agencies but a severe profit-seeking labour exploitation that turned into a social problem nationwide, as employment agencies quickly became the major means to avoid signing employment contracts for employers. To highlight the different origins and various creative ways of navigating unregulated external labour markets, I will first trace the birth of employment agencies according to their ownership, by sub-dividing this section into SOE-, government-, and privately-run agencies. I will then summarize common characteristics observed during Phase 2, and finally point out some 'non-traditional' services that were born in Phase 2 and bloomed in Phase 3.

Birth and termination of SOE-run re-employment services

As SOE reform and downsizing continued in Phase 2, large SOEs faced increased pressure to re-employ their laid-off workers, because the 'lifetime employment' notion that SOEs should take

care of their workers 'to their grave' remained strong. Attempts to differentiate 'laid-off' status from 'unemployed' status, and to give laid off workers re-employment priorities, were not effective due to the inevitable decline of 'standard' employment. Between the mid-1990s and 2008, most large SOEs created subsidiary agencies for 're-employment' purposes, but very few laid-off workers were re-employed as 'regular' contract workers. Those who were re-employed as direct-hire temporary workers were considered fortunate, as most re-employment was arranged as labour dispatching. SOEs' creation of re-employment agencies and their utilisation of flexible workers were encouraged by the 2002 Notice of the Re-employment of Laid-off Workers and the 2005 Circular of the State Council on Further Intensifying the Work of Employment and Re-employment, because they seemed to be the most practical and probable means to reduce laid-off workers at the time. However, little did the policy makers imagine that these re-employment agencies, originally created in the best interest of the workers, would quickly become the leading practitioners of various 'grey zone' dispatching.

One common form of grey zone dispatching was for an SOE to lay-off 'regular' workers and receive them right back as 'dispatched' workers through its subsidiary agency to perform the same job. This practice was often combined with another grey zone operation, which was for the SOE to pre-select specific workers to be dispatched. In theory, these arrangements were not allowed; dispatched workers should only be utilised to perform temporary or supplementary roles but not to permanently replace 'regular' workers, and employment agencies should be responsible for deciding who to dispatch. However, in reality, these arrangements were not explicitly prohibited and were widely practiced, because on the surface they simultaneously alleviated SOE's re-employment pressure and downsizing requirements without compromising productivity. A policy maker in Beijing informed me that these grey zone re-employment dispatching arrangements were casually carried out not only because of lack of regulation, but also because the SOE managers, subsidiary agency managers, and the laid-off workers all personally knew each other (interview, CO3). Although today, 'self-dispatching' through subsidiary agencies has become illegal, the pre-selection of workers by recipient organizations is still commonly practiced.

Similar to Japan, widespread media coverage of labour dispatching abuses created a social backlash against dispatching agencies during Phase 2, which triggered a series of public discussions and eventually new laws. One of the most famous and influential case was *Xu vs. KFC*. In 2004, a KFC worker Xu Yuange was instructed by his boss to sign a labour dispatching contract with a private employment agency, while he continued to do the same job. When he was fired in 2005, he was notified that his first 9 years of work at KFC would not be counted toward his unemployment

benefits and worker's compensation claims, because he had not been a KFC employee since 2004.[63] The lawsuit initiated by Xu against KFC escalated from the local arbitration committee to the district court, then municipal court, and was covered widely by media. Although this was a private company case, it brought to light many moral problems with unregulated dispatching practices that were also ubiquitous among SOEs, including the abovementioned 'grey zone' re-dispatching and pre-selecting of workers. The most discussed point at the time was whether or not the employer change without the job change could exclude Xu from KFC 'family membership'. Even though the court rulings favoured KFC all the way, public opinion was on Xu's side. Under this social pressure, KFC ended up offering a settlement that accepted Xu's claim, and announced that they would no longer use dispatched workers.

The public criticism of employment agencies has also influenced the policy making process. Particularly, labour dispatching regulations were not considered by policy makers during the early draft process of Labour Contract Law (LCL) during the late-1990s, but became one of the most comprehensive clauses when it was enacted in 2008. In addition, although SOE re-employment agencies were explicitly encouraged until the mid-2000s, the LCL prohibited employers' use of 'self-dispatching' from its subsidiary agencies, which marked the end of SOE re-employment agencies. However, similar practices continued to be carried out by SOE's subsidiary 'outsourcing' agencies, which will be discussed in Phase 3.

Mergers and spin-outs of government-run job introduction services

Having discussed large SOEs' subsidiary agencies, I will now turn to the transformation of government-run units that were created in Phase 1. One of the significant changes during Phase 2 was the blurred line between 'labour' services (by labour bureaus/departments/ministry) and 'talent' services (by personnel bureaus/departments/ministry). For example in Shenzhen, the Bureau of Personnel merged its Talent Service Centre and General Talents Market into the Shenzhen Talent Exchange Service Centre in 1998, and began providing job intermediary services to both white and blue collar workers. Its original focus was to expand the existing talent market to cover a more varied range of employers and workers, and to make the operation profitable, by means such as charging entrance fees to the talent market building. Separately in 1994, the Shenzhen Job Introduction Service Centre, run by the Bureau of Labour and Social Security, started labour

[63] Xu claimed that in 2005, he was often the only worker at his worksite, a distribution centre that was supposed to be run by at least two workers. The overwork caused him to package the wrong number of items twice that year, but they were immediately corrected. In October 2005, he was told by his KFC supervisor that he could stop coming to work because of these mistakes. Originally, he was a migrant worker and got the job through Beijing's Dongcheng district job introduction unit in 1995. He never met anyone from the employment agency he was instructed to sign with, even when he was fired.

dispatching services in response to the demand of local SOEs such as *Shenda* Telephone. The rapid rise of SOEs' needs for flexible labour led the bureau to create a new, designated unit in 2002 for dispatching services, turning it into an independent limited liability company[64] the next year, and restructuring it as a subsidiary company of the Shenzhen Talent Exchange Service Centre in 2012. More and more local government units decided to combine job introduction functions regardless of workers' education or skill level during Phase 2.

The crossover between 'labour' and 'talent' was further accelerated by the introduction of SASAC[65] in 2003 and other policies to push marketization of government organizations. Many job introduction units transformed into SOEs during the mid- to late-2000s, and expanded their businesses beyond the scope of public service. During this period, they mostly provided 'traditional' services such as job intermediation and labour dispatching according to local SOE needs. Reflecting these practical changes, the Ministry of Labour and Ministry of Personnel were merged to form the Ministry of Human Resources and Social Security (MHRSS) in 2008, followed by corresponding mergers by local departments and bureaus. However, the remnants of separation can still be observed within MHRSS today; for example, while dispatching services are monitored by 'labour relations' divisions, job intermediary services are monitored by 'mobility management' divisions, which points to each service's different origins and priorities.

Another significant event for government-run services during Phase 2 was the boom of 'talent markets', which began from Shenzhen as mentioned in Phase 1. Between 1994 and 2004, a series of policies were published by the central government to encourage talent markets, which were intended to replace job allocation for university graduates with a more 'market'-oriented hiring practice. A batch of centrally-run talent markets were first created in Shenyang, Tianjin, and Shanghai in 1994, then Guangzhou in 1995, followed by 34 more during this period. Local departments and bureaus of personnel also established talent markets, most of them by turning their already existing job fair venues from periodic hosting to a permanent set-up (interviews, CA15; CA16). However, with the rise of for-profit employment agencies, school-based job fairs, and internet-based recruitment, the presence of talent markets, whose strength lies in face-to-face interactions among large numbers of people, had declined by the mid-2000s. Since 2010, the new government-initiated trend seems to be the creation of the industrial parks, discussed in chapter three.

While 'traditional' service providers transformed and grew rapidly as profitable state-owned agencies, some of the labour service units' functions remained not-for-profit public services. These

[64] Its current name is Shenzhen Human Capital (Group) Co., Ltd.
[65] State-owned Assets Supervision and Administration Commission of the State Council, see note 60.

included 're-employment' (mostly personnel recordkeeping) services for laid-off SOE workers and 'labour exchange' services to process migrant workers. The 1995 Rules of Employment Service, later replaced by the 2000 The Regulation of Labour Market Management, confirmed the nature of these public service units. Whether or not these organizations were still considered employment agencies became questionable, and due to a lack of uniform definition, some early government records included them while others did not. The official duty to collect employment agency statistics did not begin until 2008, but was delegated to local governments without clear guidance, allowing authorities to collect random information on what they considered employment agencies at the time. Nonetheless, it is estimated that there were about 2,000 government-run public labour service units in China by the end of Phase 2 (Wang et al, 2014). They were officially excluded from the MHRSS statistics in 2014 when compiling employment agency data.

Boom of private employment agencies

Although most scholars argue that the 2008 Labour Contract Law (LCL) triggered the 'agency boom', the first surge of private employment agencies actually occurred earlier, between the late-1990s and mid-2000s. Just before this wave, the Ministry of Labour updated its 1990 Interim Provisions on Job Intermediation to the 1995 Rules of Employment Service, which explicitly justified privately-run job introduction companies. Coupled with employers' attempts to avoid signing labour contracts set by the 1995 Labour Law, private employment agencies skyrocketed both in number and usage during Phase 2. Appendix D lists the owners and establishment years of 17 major employment agencies that I identified and visited during my fieldwork, combined with 11 others that were mentioned in the 2020 government blue paper as influential agencies. With the exception of Beijing Talent Consulting Agency, which was the first headhunting company in China established in 1993, all major private employment agencies were founded during Phase 2. In addition, these private agencies could be roughly categorised into two types: those that mimicked public job introduction units and those that cultivated online advertising opportunities. The former grew rapidly during Phase 2 and the latter in Phase 3. I will focus on the former in this sub-section.

Most founders of private job introduction agencies during this period had strong connections with the government, through which they gained the know-how of public job introduction units accumulated over the past decade. They also gained business from the government through personal connections. To list some examples of the founders' backgrounds and their initial businesses: the founder of CA4 had a brother working at the labour bureau, through whom he was able to secure some labour provision business for subway-building projects; the founder of CA5 had a connection with the labour bureau's social security unit, and secured a project

to run a call centre for social security enquiries; the founder of CA6 had quit the labour bureau and started a company to supply construction workers; the founder of CA8 was close friends with her sub-district office manager, through whom her company became the building cleaner and doorman supplier.

All the employment agency managers I visited recalled that until the mid- to late-2000s, the government units would directly reach out to them to do business. Although their workload fluctuated greatly as a result, the demand for flexible labour was high for government-led projects, and by the time the bidding practices began in the late-2000s, they had already established ongoing business relations. In fact, most of them informed me that their rapid growth period was between the late-2000s and early-2010s. In addition, most interviewees recalled that there was a shift from job intermediary to dispatching services between 2005 and 2008, which was inspired by published LCL drafts. However, after learning their workflow in detail, it became clear that what they used to call job intermediary services until the mid-2000s were in fact a variation of 'group-based' subcontracting or dispatching: an agency's workflow would start from receiving a government request, then gathering a group of workers to send to the worksite; the agency was paid by the government either per-project or per-person, and would send the workers with or without a supervisor; the workers often held no employment contracts but were paid by the agency. The shift from job intermediation to dispatching was a mere re-naming of the services and did not cause workflow changes for most agencies. In fact, this workflow did not really change when they re-named their services again in Phase 3, this time from dispatching to outsourcing.

The LCL not only caused an apparent sudden spike of private dispatching agencies in the late-2000s by inspiring the existing job intermediary agencies to re-label themselves, but also further pushed employers' use of these agencies. Being the first official document to have described dispatching agencies' obligations in detail, the LCL for the first time gave many cautious company managers a clear picture and the confidence to pursue dispatching businesses. More importantly, because the LCL strengthened contract requirements for 'standard' employment relations originally set by the Labour Law, more and more employers looked to dispatching agencies to avoid such employment burdens. Ironically, the 2008 LCL intended to regulate labour dispatching and promote contract-based 'standard' employment relations, resulted in the opposite.

Although there are no official statistics, a Department of Human Resources director, who had been part of the LCL draft team, recalled that although not originally intended, they eventually had to include a specific section on labour dispatching because "hundreds and thousands of dispatching agencies were registered during the LCL draft process between 1997 and 2007. Anyone with a slight knowledge or background – labour bureau retirees, lawyers, HR managers, their

relatives, etc. – all started dispatching businesses, albeit many of them as a side job. It was completely unregulated and very lucrative" (interview, CO5). It is estimated that in 2006, about 40% of employment agencies in China were privately owned, but almost all of them were small- to medium-sized, and accounted for less than 30% of total employment agency revenue (Wang et al, 2014). The number of dispatching agencies peaked in 2011 at about 500,000, and began to decline due to the shift to labour outsourcing in Phase 3.

Creative evolution in unregulated fields

As shown above, the founding process, original intension, and initial services varied widely among SOE-, government-, and privately-run employment agencies, but they certainly shared common characteristics during Phase 2, which can be summarized as follows. Firstly, the 'triangular' relationship among agencies, workers, and employers began to take the form of 'traditional' services such as job intermediation, labour dispatching, and subcontracting. Although the definitions of these services were not yet crystallised, employers mainly used job intermediary services to gain management-track 'standard' employees who were no longer allocated by the government, and dispatching and subcontracting services to gain 'cheap' and 'quick' workers who were not offered 'standard' employment entitlements.

Secondly, employment agencies' clients were predominantly local governments and SOEs, and their businesses relied heavily on personal connections instead of marketing and bidding. While SOEs mainly used their own subsidiary agencies and affiliated government-run agencies to gain workers, local government bureaus became the largest clients for newly established private agencies. Faced with a marketization dilemma – national policy to downsize public organizations on the one hand, and social pressure to re-employ laid-off workers on the other hand – it was natural that governments and SOEs sought solutions in 'external' labour markets and flexible employment practices.

Thirdly, policy makers struggled to keep up with unregulated, creative, and often exploitative agency activities. The 1995 Labour Law triggered the surge of employment agencies as a means for employers to avoid offering labour contracts, and labour exploitation through such agencies was widely reported in media during Phase 2, but there were no explicit laws to clarify each actor's obligations in the triangular arrangement of labour dispatching until the 2008 Labour Contract Law (LCL). Due to employers' and agencies' abilities to creatively work around regulations, some policies ended up with unexpected, or even opposite outcomes. SOE-run re-employment agencies, which were originally encouraged and created for public service purposes during Phase 2, turned out to be the masters of 'grey zone' dispatching operations. The 1995 Labour Law and the

2008 LCL, intended to provide legal protection for workers, to promote contract-based 'regular' employment, and to regulate dispatching agencies, greatly increased the use of precarious workers through employment agencies.

Incubation of 'non-traditional' services

Before moving to Phase 3, I will touch upon two types of 'non-traditional' agency services that were born and remained small-scale during Phase 2, but became the dominant employment agency practices in Phase 3. One type is the creation of internet-based private job advertising companies. The "big three"[66] (Zhaopin.com, ChinaHR.com, and 51job.com, formed from 1997-1999) and 58.com created in 2005, have become the most frequently used online recruitment platforms in China today. Unlike government leaders who mostly held science and engineering degrees, these new companies' founders had law, management, or finance backgrounds with overseas experience. After learning about the success of job advertising companies abroad, particularly that of Recruit in Japan discussed in previous chapters, they were confident in the development of the internet and were willing to endure a relatively slow start-up period during Phase 2 (interview, CA10). For example, Zhaopin, founded in 1997, was a loss-making company until 2008; they supplemented their income by offering some 'traditional' services, while gradually building their database. These efforts were greatly rewarded in Phase 3.

Another significant formation of a 'non-traditional' service during Phase 2 was 'comprehensive' HR outsourcing, almost exclusively performed by 'foreign service' agencies for their foreign clients at the time. As discussed above, Deng Xiaoping's southern tour in 1992 and China's joining of WTO in 2001 accelerated 'opening-up' and globalization during Phase 2, resulting in a further influx of foreign capital. However, the incoming companies soon faced the challenge of frequently changing policies, regional variations, lingering *danwei* customs, the necessity for personal connections and informal interactions, and so forth. Instead of trying to navigate China's turbulent political economy on their own, foreign companies relied on employment agencies to handle human resource problems.

As a result of this rising demand, 'foreign service' agencies greatly increased during Phase 2. For example, the Beijing municipal government ended FESCO's monopoly in 1995 and handed out five more foreign service permits to local employment agencies, including Ciic, in that year. FESCO began to spread to other regions in China in 1995, expanded to serve domestic clients in 2000, and at the beginning of Phase 3 in 2010, formed a Shanghai-based joint-venture with Adecco. The

[66] This term was used by managers at Zhaopin.com and ChinaHR.com. These three companies had been the leading online recruitment agencies, but at the time of my fieldwork, the presence and influence of ChinaHR.com were smaller than the other two.

world's largest foreign employment agencies, including Adecco, Manpower, and Randstad, also moved into China during this period, in 1995, 2000, and 2005 respectively, along with their existing clients. The Ministry of Labour's 2002 Provisions on the Administration of Intermediary Activities for Overseas Employment and 2003 Interim Provisions on the Administration of Chinese-Foreign Joint Venture Talent Intermediary Agencies, which established guidance for foreign employment agencies, further accelerated their growth and integration into China's labour market. In 2010, the revenue of foreign employment agencies accounted for 4.8% of China's entire employment agency revenue.[67]

Almost all managers at state-owned employment agencies recalled that their expansion of foreign and domestic clients, as well as their range of services, began in the early-2000s. This was earlier than the rapid business growth experienced by most private employment agencies that only served domestic clients. In addition to 'traditional' labour dispatching, their foreign services took various forms according to the clients' needs, which included outsourcing the entire human resource management, or a part of it, such as headhunting, recruitment process outsourcing, and wage and welfare management outsourcing. Many of these 'Western' business models were introduced by their corresponding foreign companies during this period, and then spread among domestic employers in Phase 3.

Phase 3: Rebalancing marketization and workers' protection (2010~)

The previous sections showed that state-owned agencies (mostly created during Phase 1) and privately-owned agencies (mostly created during Phase 2) differed greatly in their origin, but their functions began to converge as 'traditional' service providers by the end of Phase 2. As argued in chapter three, the 'flexibilization' of employment relations became an aligned motivation among major labour market actors, including employment agencies (regardless of their ownership), large employers, business associations, and local government organizations under the 'hierarchical direction' of the central government. As a result, the 'human resources service industry' began to form rapidly during Phase 3.

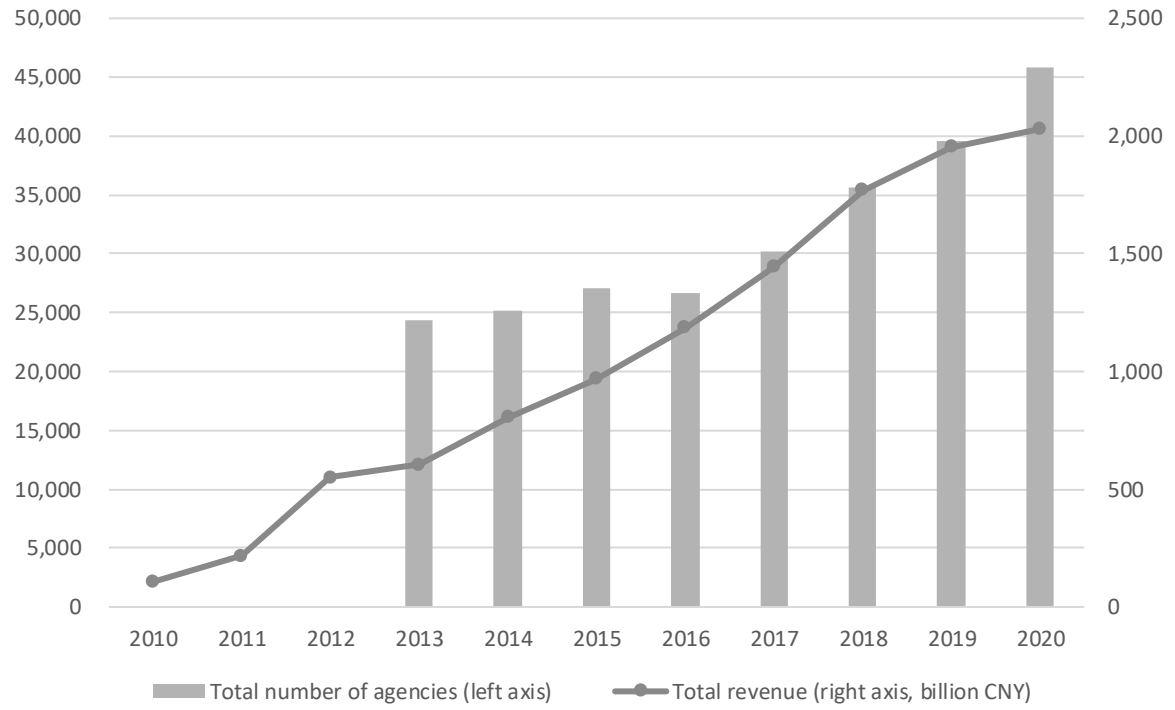
Figure 5.1 shows the growth of employment agencies in China during Phase 3, both in number and revenue. The growth rate in revenue (averaging 40% per year) is greater than the growth rate in number (averaging 10% per year), which indicates that many agencies have increased their sales during Phase 3. Moreover, as a result of the private agency boom during Phase 2, about 70% to 80% of employment agencies are privately-owned.[68] Wang et al (2014) estimate that the

[67] This ratio included revenue in Hong Kong, Macau, and Taiwan, and peaked in 2011 at 9.7%, then declined to 4.2% in 2012 (Wang et al, 2014). The decrease was not due to the decline of foreign employment agencies, but signified the beginning of domestic agency expansion.

[68] 76%, 71%, 73%, and 78% in 2013, 2016, 2017, 2019 respectively (Wang et al, 2014; Xiao et al, 2021).

revenue of private agencies surpassed that of state-owned agencies between 2011 and 2012, when private agencies experienced a drastic jump from 51.5 billion to 318.5 billion CNY[69] and state-owned agencies from 143.9 billion to 208.9 billion CNY. In this section, I will discuss the key changes in Phase 3, and further elaborate on the 'snapshot' of employment agency-centred interactions described in chapter three.

Figure 5.1: Total number and revenue of employment agencies during Phase 3



Data compiled from MHRSS, 2013-2021; Wang et al, 2014; Sun et al, 2018; Tian et al, 2021

(Re-)re-labelling 'traditional' services in external labour markets

One notable change during Phase 3 is that the laws against labour dispatching exploitation, which became a widespread problem in Phase 2, have finally caught up. With the clear intention to reduce labour dispatching, the amended Labour Contract Law (2012) and the 2014 Interim Provisions on Labour Dispatch both provided stricter and clearer requirements for labour dispatching agencies and their client companies. According to a former policy maker who was involved in the drafting process of both regulations, they studied Japan's labour dispatching regulations intensely, not just by reading Japanese laws, but also by organizing study groups to visit

[69] This excludes foreign agency revenue, which was 22.3 billion CNY in 2011 and 24.0 billion CNY in 2012 (Wang et al, 2014).

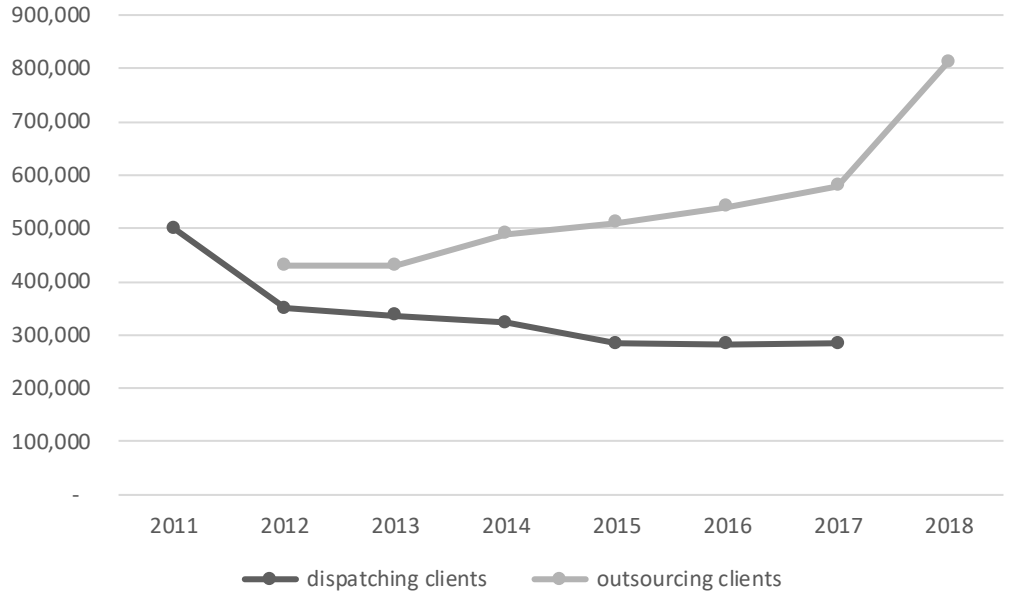
Japanese government organizations and employment agencies to learn their monitoring and self-regulating practices (interview, CO3). Consequently, the obligations of employment agencies and their clients, such as provision of contract, supervision, wages, and insurance, are defined similarly in Japan and China.

However, unlike Japanese agencies that expanded their dispatching services within a regulated environment, Chinese agencies and clients shifted away from labour dispatching to outsourcing to avoid these regulations. This was made possible by the existing 'group-based' workflow established during Phase 2; for most employment agencies, all they had to do initially was re-label their services once again, this time from 'dispatching' to 'outsourcing'. The transition also went smoothly because the differences between these two services, especially regarding supervisory requirements, were not well known, and not monitored. In fact, other than government workers, only one of my interviewees could clearly distinguish one service from the other, and he admitted that his company's labour outsourcing arrangements for factory workers were perhaps in the 'grey zone' (interview, CE2).

Almost all agency managers recalled that their shift to 'outsourcing' practices happened in the early 2010s, but because their workflow remained unchanged, it meant that their labour provision services became the 'fake outsourcing, real dispatching' discussed in chapter three. This practice remains one of the main 'traditional' services provided by employment agencies today, and can still be observed in many cases where a large number of blue collar workers are required for temporary or non-core jobs, such as construction, factory assembly, and property maintenance. All policy makers that I visited during my fieldwork confirmed that the government had no intention of monitoring this violation at the moment, but would rather place more effort into growing the 'human resource service industry', particularly by building industrial parks, supporting leading companies, and training key individuals.

Figure 5.2 presents the decreased usage of dispatching services and increased usage of outsourcing services throughout Phase 3, based on data collected by MHRSS, which indicates the shift from dispatching to outsourcing, as well as the rise of 'non-traditional' outsourcing services. However, after witnessing the lack of knowledge and monitoring systems to differentiate dispatching from outsourcing, I suspect that the sharp decline in dispatching in the early 2010s was the result of the 're-labelling' of dispatching as outsourcing discussed above, but the actual decline in practice happened more gradually. In addition, it is difficult to identify the exact increase of 'non-traditional' outsourcing from this data because it does not separate 'traditional' from 'non-traditional' outsourcing, though the usage of 'non-traditional' outsourcing has certainly increased, and has contributed to the overall increase of 'non-traditional' services.

Figure 5.2: Number of client companies that used dispatching and outsourcing services



Data compiled from Sun et al, 2018; Tian and Wang, 2019

Rise of 'non-traditional' services in internal and 'quasi-internal' labour markets

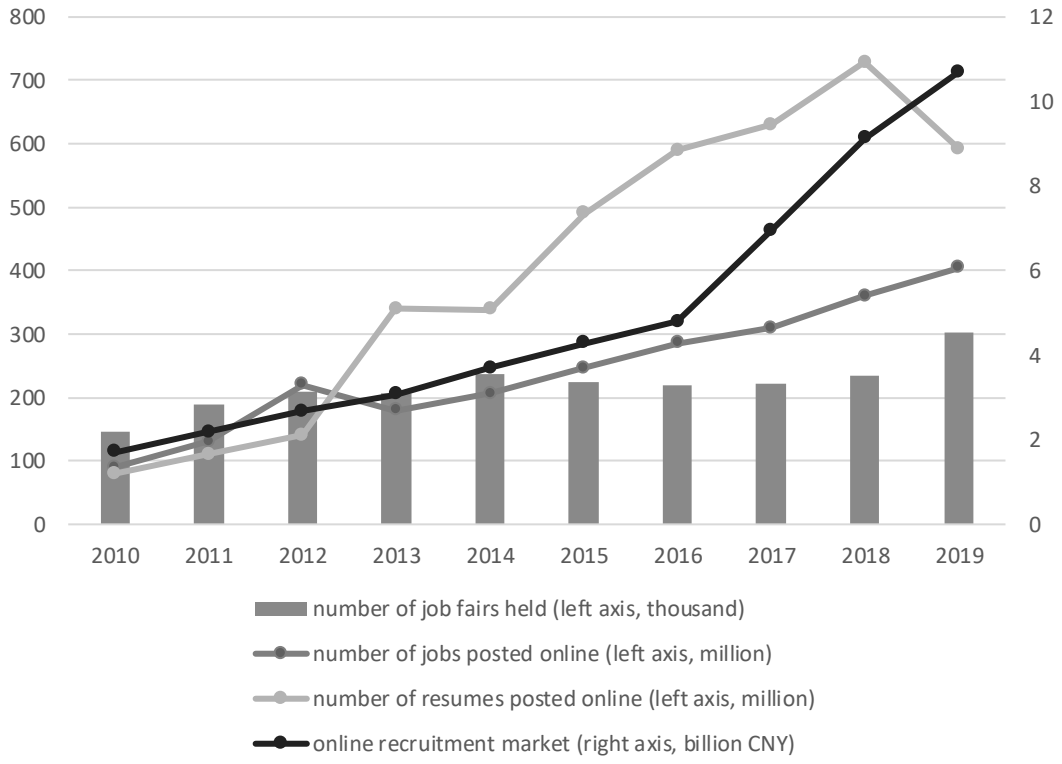
Although 'traditional' labour provision remained a significant part of employment agency business, its growth has slowed down during Phase 3. Instead, various 'non-traditional' services have emerged, and begun to take part in the recruitment process and human resource management of 'standard' employees. What an agency manager referred to as "real outsourcing" has become increasingly common, which provides "human resource solutions" instead of "simple workers" (interview, CA5). One practice that was frequently brought up during my fieldwork was RPO (recruitment process outsourcing) for large SOEs and government organizations, including job application management, exam making, background checks, and transfer of these processes from paper-based to online-based. On the surface, the government supports RPO because it helps maintain the objectivity of selection processes (interview, CO9), but an SOE manager told me that "it's just easier to let the pros do it" (interview, CE1).

For smaller employers, outsourcing services have become even more diverse. Particularly, the delegation of university job fair participation has become widely practiced. An agency manager in Beijing informed me that because many universities hosted job fairs simultaneously, the recruitment teams were divided per university instead of per client, and each team would be in charge of recruiting students for multiple clients. According to a recruitment team member in this

company, during the busiest months in spring and fall, she would be visiting different universities and interviewing about 50 to 70 students per day (interview, CA10).

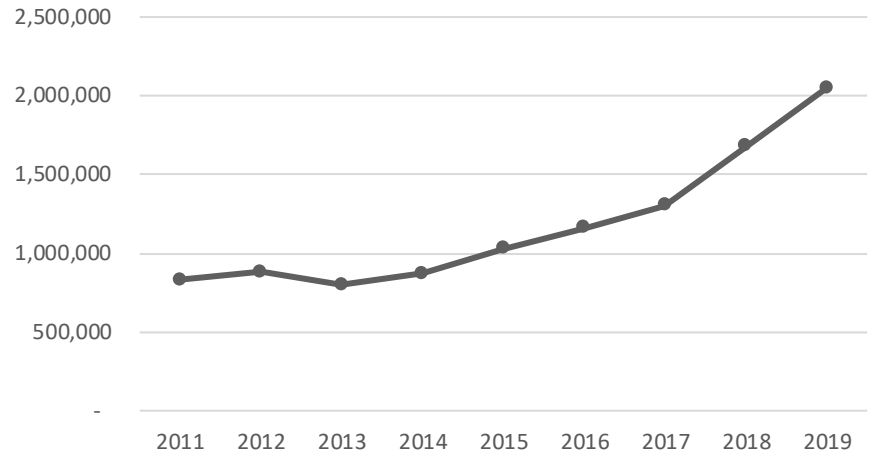
Another increasingly popular outsourcing service is the management of employee social insurance, which consists of health, work injury, maternity, retirement, and unemployment insurances. Because social insurance policies change often and vary from region to region, employers with offices in multiple cities began to rely on outside agencies to keep track of variegated entitlements and deadlines instead of hiring their own social insurance managers. Of the private agency owners that I interviewed, two of them expressed their intention to pivot their businesses to this direction. Both of them started a social insurance service, initially as an experiment for their existing clients in the mid-2010s, and quickly realised that it is much more lucrative than labour dispatching. One of them had launched a social security management app in 2019, and was excited about the possibility of her agency becoming a leading software company for social insurance.

Figure 5.3: Growth of online job advertisements compared to in-person job fairs



Data compiled from Wang et al, 2014; Sun et al, 2018; Tian et al, 2021; iResearch, 2019 and 2022

Figure 5.4: Number of headhunting successes



Data compiled from Wang et al, 2014; Wang, 2015; Sun et al, 2018; Tian et al, 2021

The growth of 'non-traditional' services, mostly to recruit and manage 'regular' workers, coincided with the rise of the internet. Figure 5.3 shows the increase of online job advertisements compared to in-person job fairs. Although job fairs are still regularly held, especially for hiring university students and migrant workers, online recruitment platforms have rapidly become the most widely used matchmaking venue. Most workers that I encountered during my fieldwork who had recently changed jobs showed me multiple job searching apps on their smartphones. Other than some who were hired by their friends or relatives, they all found jobs through apps, with the most popular being the products of internet-based employment agencies created during Phase 2, such as Zhaopin.com, 51job.com, and 58.com.

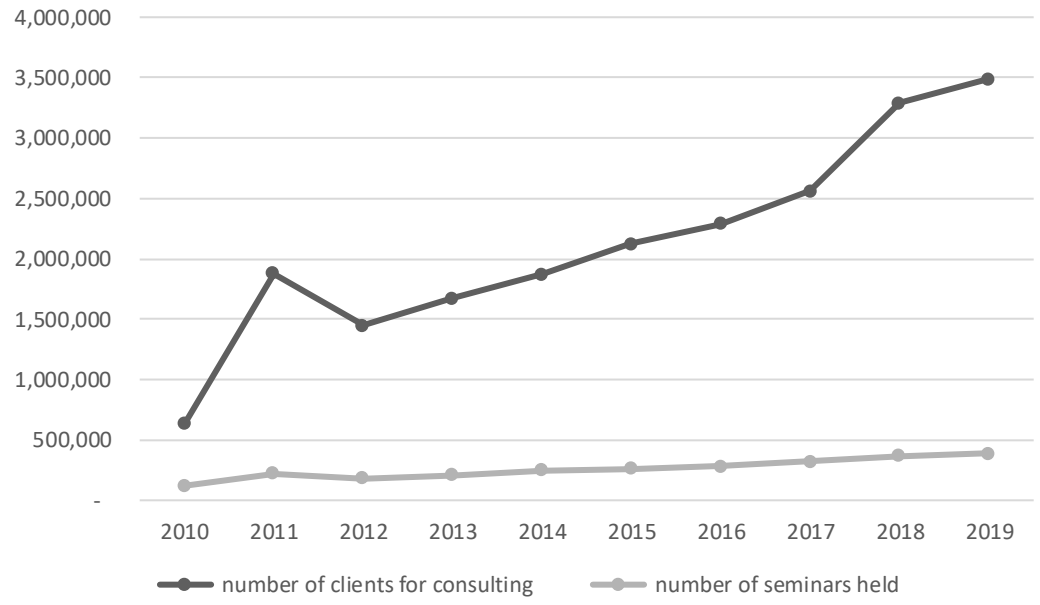
The databases accumulated by these agencies were also used for other online recruitment activities such as headhunting, which has greatly increased during Phase 3, as shown in Figure 5.4. Although structurally similar to 'traditional' job intermediation, headhunting in China took the 'client-oriented', 'group-based' approach discussed in chapter three, and was often considered part of RPO in practice. The vast data on job-seekers has enabled employment agencies to find workers for their clients more easily, cheaply, and quickly. As a result, headhunting became more commonly and casually practiced, not just for searching for individuals with specific skills but for general recruitment of 'regular' employees.

Other rapidly growing services during Phase 3 were consultancy and seminar/training, as shown in Figure 5.5. The number of employers that used consulting services may seem large, but this is because 'human resource consultation' encompassed many more services than information and advice seeking. There was no uniform definition of HR consultancy in China, but based on my

interviews and what were listed as 'consulting' on employment agency websites and government publications, I suspect that the number shown as 'consulting' may actually represent the number of employers that used 'non-traditional' agency services, with the exception of online advertising services. Nonetheless, the increased use of consulting services was confirmed by my interviews with managers at large employers, as discussed in chapter three, with topics including HR strategies, wage systems, internal (re)allocation, worker evaluation, welfare, work-life-balance, and technology.

Although Figure 5.5 shows an increase in seminars, I only encountered two managers who had ever attended them, which hints that seminars held by employment agencies in China mostly targeted workers and smaller companies. In fact, some SOE managers even lamented that their opportunities for attending management-related training and seminars had decreased in the past few years as the government tightened their control over SOEs, which greatly increased the frequency of study groups run by the Communist Party for SOE managers. In addition, because most SOE leaders hold science and engineering degrees, they tend to place less importance on business-related studies. With government support and existing market dominance, SOEs could continue to operate with less management skills than private companies, making employment agency seminar and training services difficult to influence their internal labour markets.

Figure 5.5: Number of client companies that used consulting services, and number of seminars held



Data compiled from Wang et al, 2014; Wang, 2015; Sun et al, 2018; Tian et al, 2021

Promotion of strategic human resource service industry

As employment agency services expanded, their interactions among themselves, as well as with other labour market actors, became more active and complex. Some patterns I observed during my fieldwork are as follows: large employers began to create subsidiary agencies to serve certain labour outsourcing functions for their parent companies, with the most common being cleaning services, security guards, and call centres; large employment agencies accelerated the acquisition of smaller agencies locally, starting from their direct competitors, followed by more diverse and specialised companies, such as headhunting agencies, software development companies, and property management companies; a 'supply chain' formed among employment agencies, in which larger agencies re-outsourced part of their projects to smaller agencies, such as background checks for RPO, data input for online system development, and, surprisingly, gathering workers for large projects. In Appendix D, I listed the two subsidiary agencies that I visited during my fieldwork, a property management outsourcing agency and a headhunting agency, created and acquired respectively during Phase 3.

In chapter three I presented the aligned motivations of labour market actors to turn employment agency services into a strategic industry through public-private cooperation. The significance of this expansion during Phase 3 is evident from the fact that employment agencies and human resource services began appearing not just in labour market-specific policies but in policies regarding China's overall economic development strategies. For example, 'human resource services' was for the first time explicitly listed in China's five-year economic and social development plan[70] and the industrial restructuring guidance[71] as one of the service industries to encourage in 2011. It has since remained on the updated plans and guidance in Phase 3, suggesting that employment agencies have become key players in China's development strategy.

Many other policies were published during Phase 3 that specifically addressed different aspects of employment agency activities, which are listed in Appendix E. With the exception of labour dispatching regulations, they were mostly encouragement and guidance to further develop the human resource service industry in general, as well as specific activities such as headhunting, use of IT, service diversification, and so forth. None of them attempted to regulate labour outsourcing, even though it has been the main agency service in China during Phase 3, and has perhaps had the most malpractice. This lack of regulation and monitoring systems in policies, along with my policy

[70] The Twelfth Five-Year Plan for National Economic and Social Development (2011). 'Human resource services' thereafter remained in the updated five-year plans in 2016 (Thirteenth Plan) and 2021 (Fourteenth Plan).
[71] Catalogue for Guidance of Industrial Structure Adjustment (2011). 'Human resource services' were listed as one of the key industries to 'encourage', and thereafter remained on the list when it was updated in 2013, 2016, and 2021.

maker interviews, clearly displayed the government's priority to "strongly develop"[72] the human resource service industry, even if it meant that the rapid expansion has at least temporarily increased 'grey zone' outsourcing and dispatching practices that can lead to exploitation.

Most of these policies were collected through government publications and interviews with policy makers, so it is difficult to identify the actual influence that each policy has had on employment agency practices. However, several policies were brought up by employment agency managers during interviews, indicating their potential influence. The most influential policies must have been the amended LCL (2012) and the 2014 Interim Provisions on Labour Dispatching, which were mentioned by most managers because they had marked the shift from dispatching to outsourcing. The 2018 Interim Regulation on Human Resource Markets was also frequently mentioned, which was the first legal attempt to address all employment agencies' activities. This regulation is focused on the administrative and supervisory responsibilities of government organizations, and specific punitive measures against an agency's failure to register or provide accurate information, so it is unlikely that this regulation itself will directly change employment agency behaviour in any significant way. However, it signifies policy makers' shift of intention from addressing each employment agency service individually, to regulating the entire labour market with employment agencies being an important part of it.

Several large state-owned agency managers pointed me to the 2017 Action Plan on the Development of the Human Resources Service Industry, which encouraged the development of human resource services in six main areas. It is not surprising that large SOE managers, who had the strongest ties with the government, paid attention to this policy, because the six main areas listed followed China's overall economic development strategy: fostering key enterprises, training leading talents, building industrial parks, accelerating IT development, establishing credibility, and supporting the Belt and Road Initiative. Although this list was a reflection of existing activities that had already been expanding during Phase 3, consolidating them as an explicit guidance may further accelerate such practices in a more organised way, especially for state-owned employment agencies.

Conclusion and potential transition to Phase 4

As presented in this chapter, each phase of evolution showed drastically different characteristics in China, while carrying over some features from the previous phase. During Phase 1, employment agencies were predominantly run by local government organizations for public service purposes, and tried to help SOEs and workers move away from the planned economy era's employment customs. While some government services remained not-for-profit, many of these 'job

[72] This term (*dali fazhan*) was repeatedly used in multiple policies.

introduction' organizations transformed into profit-seeking SOEs during Phase 2. The rise of private and foreign employment agencies also occurred during this period, and while for-profit agency practices spread nationwide, 'traditional' services such as job intermediation, dispatching, and subcontracting started to come into shape. The growth of these 'traditional' services has slowed down during Phase 3, though they are still one of the main employment agency activities today. The most significant change in the past decade was the rapid expansion of 'non-traditional' services, which augmented the role of employment agencies from a mere workforce provider to a 'comprehensive human resource solution' provider, transforming them into a key labour market player for China's economic development strategies.

This chapter also highlighted relevant policies and labour market changes to demonstrate the co-evolution of institutions, employers, and employment agencies. While the influence of economic policies on employment agency behaviour was certainly strong, many employment- or agency-specific policies were created as a reflection of existing practices or as an attempt to correct unexpected outcomes caused by previous policies. Overall, employment agency activities thrived in unregulated areas, and when laws caught up, both employers and employment agencies quickly created new alternatives in other unregulated fields. Some of the most vivid examples include the increased use of agency services to avoid tightened employment contract requirements, creation of outsourcing subsidiaries after the prohibition of self-dispatching, and re-labelling of labour dispatching to outsourcing as a result of strict dispatching laws. Internet-based agency services were also unregulated, which may be contributing to their rapid growth in the replacement of 'traditional' job intermediary services that required specific permits.

Based on these findings, I will end this chapter by listing some speculations for the potential development of Phase 4. First, 'traditional' and 'non-traditional' services may become more separated in China; while smaller employment agencies will continue to remain as local labour providers, larger agencies will place more emphasis on RPO (recruitment process outsourcing), HR management outsourcing, and software development for these services. Second, large employment agencies may decrease in number, but grow in scale by more aggressive mergers and acquisitions to expand their 'non-traditional' services and to become more globally competitive. This will coincide with a stronger government control over SOEs, and influence on their strategies, which is already happening. Third, as the norm of internet-based recruitment practice is established, which has been greatly accelerated by COVID-19,[73] the next expansion of 'non-traditional' services will likely be those that influence internal labour markets, such as wage and welfare management software

[73] For example, according to MHRSS, the number of online job postings increased four times between 2019 and 2020, from 404 million to 1,647 million.

development, remote working systems, and consultation services for these transitions.[74] Fourth, the government may decide to regulate labour outsourcing practices, but this regulation will likely target the 'fake outsourcing, real dispatching' practiced by smaller agencies for the most part. The tightened regulation may cause another rapid pivot of services, such as changing outsourced workers into 'gig' or 'platform' workers managed through employment agencies. Fifth, the next government-initiated trend after building industrial parks may be the creation of a centralised human resources online platform at national or provincial levels to reduce regional inequality.[75] This will require an even higher level of cooperation among different labour market actors, and will further increase the importance of employment agencies.

[74] For example, FESCO launched an employee 'self-management' app under the guidance of the Beijing municipal government in 2022.

[75] As part of the recent government strategies to reduce reginal disparities, MHRSS developed a ranking system to evaluate the level of human resource service development. In 2019, the regions I visited, Shenzhen (Guangdong), Nanjing (Jiangsu), and Beijing ranked number 1, 3, and 5 respectively (Xiao et al, 2021).

Chapter Six: Comparison and Conclusion

The last chapter of this thesis will analyse key findings from a comparative perspective, which provides answers to my research question regarding the evolution and influence of employment agencies: *"How have employment agencies evolved in Japan and China, and what influence have they had on the evolution of labour markets and employment relations in both countries?"* After summarising previous chapters, I will further discuss the implications of my findings for the influence of employment agencies on labour markets, as well as the limitations of this research, suggestions for further studies, and finally, speculations for future development.

Summary and comparison of previous chapters

Throughout this thesis, I have showcased that the history and interactions of employment agencies in Japan and China enable comparative analysis in various ways. In this section, I will first provide a brief summary of my research framework discussed in chapter two, then summarise my findings on labour market actor interactions, presented comparatively in chapter three. Because the evolution of employment agencies in Japan and China were traced separately in chapters four and five, this section will primarily focus on the comparison of their evolutions, which provides direct answers to the first half of my research question.

Recap of research framework (chapter two)

By combining three conceptual frameworks – actor-centred institutionalism, historical institutionalism, and compressed development – analysis of employment agencies can be made from multiple perspectives. While there are various overlaps, actor-centred institutionalism is mainly applied to identify key actors, their motivations, and ways of interactions, which provides explanations for certain labour market outcomes, particularly flexible employment relations. Historical institutionalism is mainly utilised to trace the incremental changes of labour market institutions (employment policies, norms, and common practices) and labour market actors (employment agencies and employers), and to analyse the co-evolution and mutual influences of such institutions and actors. The compressed development framework is referred to for designing a comparison specifically of Japan's and China's development of labour market institutions, as well as overall economic development, which provides historical, geopolitical, and technological explanations for the two countries' different patterns of labour market evolution.

Where available, I used secondary data to provide statistical evidence, mostly when discussing Phase 2 in Japan and Phase 3 in China. However, this thesis is primarily reliant on

empirical findings gathered through my fieldwork in Japan and China, where I visited major employment agencies and large employers, conducted elite interviews, collected internal documents, and participated in seminars and events targeting employment agencies and human resource managers. Methodologically, I followed the approaches of critical realism and retroduction to explore contextual factors contributing to Japan's and China's observable employment phenomena, and to design my comparative, multiple-case study that weaves back and forth between hypotheses and data collection. Initial hypotheses were made based on literature review, but were adjusted constantly according to my fieldwork findings. Conversely, fieldwork activities and interview questions were frequently modified to pursue new hypotheses, until the collected information reached saturation and could be analysed thematically. As a result of this retroductive process, three endogenous evolutionary phases were identified in Japan and China by applying historical institutionalism's 'systematic process analysis'.

Comparison of actor interactions (chapter three)

Based on these empirical findings, chapter three of this thesis provided a relatively static 'snapshot' of how employment agencies interacted with other labour market actors at the time of my fieldwork, which served as a general overview of little-known employment agency activities. Also little-known was my theoretical approach in this chapter, which was an application of relatively underdeveloped actor-centred institutionalism. The main theoretical contribution of this chapter was to present an example of how actor-centred institutionalism can be used, and is indeed suitable for, an empirical study of economic actors, by which I hope to provoke future empirical, actor-focused studies. In particular, this chapter showed that the diversity and complexity of labour market actors can be systematically organised and analysed by using the actor-centred institutionalism's 'interaction-oriented' approach and 'actor constellation' method, which helped to explain differing labour market outcomes in Japan and China as the result of actor intentions and interactions.

Table 6.1: Summary of key fieldwork findings of actors' behaviours and interactions (Chapter Three)

Section title	General findings and implications	Specific findings on employment agencies in Japan and China
'Landscape'	• Relatively 'uniform' behaviour in Japan; 'mixed' behaviour in China ('compressed development') • Supplementary roles of employment agencies in Japan; more dynamic and strategic roles in China	*Similarities (between large Japanese firms and Chinese SOEs):* • Maintenance of long-term client relationships • Maintenance of long-term employment relationships *Differences:* • Involvement in clients' core work: limited involvement in Japan, more active involvement in China • Worker availability: overall labour shortage in Japan, abundant 'cheap labour' in China • Main communication technology: websites and emails in Japan, varied means in China (depending on geography, skill level, age, etc.)
'Interaction-oriented' analysis	• Conflicting intention to 'flexibilize' vs stabilize in Japan; aligned intention to 'flexibilize' in China (actor-centred institutionalism) • Gap between ideal and reality	
(1) 'Triangular' interaction among employment agencies, workers, and large employers	• Worker-oriented behaviour in Japan; client-oriented behaviour in China • Individual-based behaviour in Japan; group-based behaviour in China • Clear legal and practical division among service types in Japan; clear legal division but unclear practical division in China	*Similarities:* • Increase of advertising services (along with digitalisation) • Increased demand for finding specialized workers • Ineffective (and often unmotivated) monitoring for violation *Differences:* • Popular labour provision services: worker-based (intermediary and dispatch) services in Japan, project-based (outsource) services in China • Popular 'non-traditional' services: training and seminar in Japan, consultancy and evaluation in China • Familiarity with legal structures: high in Japan, low in China
(2) 'Triangular' interaction among employment agencies, business associations, and government	• Low policy influence in Japan; higher policy influence in China • Low market influence of business-government cooperation in Japan; higher influence in China	*Similarities:* • Business associations: active self-monitoring and information sharing, less active lobbying *Differences:* • Business associations: organized by employment agencies in Japan, organized by government in China

	• Conflicting relations in Japan; hierarchical relations in China (with government at the top)	• Informal interactions between employment agencies and policy makers: not observed in Japan, active in China • Inclusion in policy making processes: low in Japan, high in China • Strategic agency-government cooperation: initiated by employment agencies and business associations in Japan, initiated by government in China (and executed by business associations and employment agencies)
(3) 'Triangular' interaction among employment agencies, universities, and large employers	• Alternative connection between students and employers • Partial contribution to new 'standard' student recruitment processes	*Similarities:* • Demand for advertising services for fresh graduate recruitment: low for large employers, high for less popular employers *Differences:* • Involvement in fresh graduate recruitment: mostly online application tool designing in Japan, comprehensive RPO for Chinese government and SOEs, and limited involvement with large Chinese private companies
(4) Interaction among employment agencies	• Dominance of Recruit in Japan; more localised and specialised market in China • Cooperative behaviour in Japan; competitive behaviour in China	*Similarities:* • Hierarchical relations between large and small employment agencies *Differences:* • Cooperative interaction (data-selling and advertising for other agencies): common in Japan, uncommon in China • Competitive interaction (supply chain of workers and services through outsourcing): not observed in Japan, common in China
(5) Other relevant actors (consulting firms, IT firms, labour unions, industrial parks)	• Expansion of 'non-traditional' services to consulting and IT • Discrepancy between the 'ideal' and 'reality' of labour unions and Chinese industrial parks	*Similarities:* • Functional overlap with consulting and IT firms • Lack of protection by labour unions *Differences:* • Labour union: represents 'regular' workers in Japan, represents government in China • HR industrial parks: not observed in Japan, growing rapidly in China

Table 6.1 summarises key fieldwork findings regarding the behaviours and interactions of each actor 'constellation' discussed in chapter three. The main take-aways are as follows. (1) Observed actor behaviours were more 'uniform' in Japan, where maintenance of long-term employment relations and client relations were emphasised. Contrastingly in China, actor behaviours were 'uneven' depending on location, size, ownership, relation with other firms, and so on, as well as among individual managers. While this finding does not deny employment diversity in Japan, I suspect that the contrast between Japan and China was particularly vivid in this thesis because my targeted interviewees were older managers at large, well-established employers, where as my findings might have been more nuanced and 'uneven' had I studied smaller companies or contemporary industries. (2) The motivations of actors to promote flexible labour markets were relatively aligned in China, with the government playing strong advocacy and leadership roles, resulting in drastic labour market change. Although labour market flexibilization is also significant in Japan, it has been more gradual than China, as actors in Japan struggle to balance the need for flexible workers and the maintenance of long-term employment stability. (3) Consequently, employment agencies play an active role in China, with increased involvement in government and corporate human resource strategies, whereas in Japan, they mostly serve a supplementary role in maintaining the status of 'standard' employment, although their business and associated influence are growing according to the clients' increased needs for flexible workers.

Comparison of employment agency evolution (chapters four and five)

Chapters four and five traced the co-evolution of employment policies, practices, and agencies, which provided a historical context to the observed phenomena discussed in chapter three. Particular attention was paid to identification of major changes in policies and practices, how employment agencies influenced them, and were in turn influenced by them. These chapters made theoretical contributions to historical institutionalism in two ways. Firstly, while most historical institutionalism literature traces various countries' political changes and formal rules, this research added empirical support to less studied aspects by showing the theory's applicability to analysis of economic changes and unwritten practices in addition to formal policy changes. In particular, this thesis revealed how employment agencies can influence not just employment policies but employment practices with various creative ways of abiding, re-interpreting, re-negotiating, or evading labour market institutions.

Secondly, the application of historical institutionalism's 'systematic process analysis' presented the benefits of organising empirical findings into 'phases' in order to highlight the most significant changes and their timings. Without denying the institutional continuity and incremental

changes central to historical institutionalism, identifying endogenous 'phases' *ex post* in Japan and China revealed their employment agencies' surprisingly similar patterns and timing of evolution overall, which in turn helped to highlight their differences in practice within each phase.

The two countries were discussed separately in each chapter in order to address a wide range of information, including events that were significant to each country, but not necessarily comparable with the other directly. However, the tracing of employment agency evolution in both countries showed that they followed similar timelines and patterns overall, which can be categorised into three comparable phases:

- Phase 1 (until the mid-1990s): exploratory growth within restricted environments
- Phase 2 (mid-1990s to 2000s): agency boom along with liberalization
- Phase 3 (from around 2010 on): rebalancing liberalization and workers' protection

Based on the findings discussed in chapters four and five, in this section, I will compare the similarities and differences of each evolutionary phase in Japan and China, which are also summarised in Table 6.2.

Japan and China shared surprisingly similar labour market characteristics regarding for-profit employment agency activities during the earlier two phases, which were mostly to do with the restriction of agencies during Phase 1 and the promotion of agencies during Phase 2. During Phase 1, the long-term 'standard' employment norm established in the 1950s and 1960s left very little room for employment agencies to grow. In Japan, for-profit labour dispatching and job intermediary activities were explicitly prohibited by law to prevent exploitative practices, and while there were no specific laws in China, it was taken for granted that the government should be in charge of worker allocation just like in Japan. Within such restricted environments, the precursors of today's for-profit employment agencies emerged as small, experimental, and regional organisations.

These precursor organisations born during Phase 1 reflected the initial and gradual rise of the need for labour market flexibilization, which had not yet caused notable institutional changes. In Japan, newly emerged, privately-run agencies originally took the form of subcontracting and advertising companies in order to avoid legal restrictions while responding to rising employer demands for 'non-regular' workers after the end of the high growth era. In China, government-organised employment service units were created after the 'reform and opening-up' to support foreign companies and tackle growing unemployment problems, and took on various functions such as worker provider, personnel record keeper, and job advertiser. Although the origin of employment agencies thus completely differed in the two countries in terms of ownership, purposes, and activities, their functions converged into similar profit-seeking structures during Phase 2.

Table 6.2: Summary of employment agency evolution in Japan and China (Chapters Four and Five)

Phase 1 (until mid-1990s): exploratory growth within restricted environments		
	Japan	*China*
Institutional characteristics	• Persistence of 'standard' employment institutions established in the 1950s and 1960s. • Limitation of for-profit agencies both by law (Japan) and by practice (both countries). • China looking to Japan for employment agency regulations.	
Agency characteristics	• Birth and initial development of today's major for-profit agencies & their precursors. • Small-scale, experimental, and regionalised development.	
Structure of new agencies	Private companies	SOEs and government organizations
Main purpose of new agencies	To explore the rising market needs for flexible employment, and to promote it	SOEs to support foreign businesses; government organizations to solve unemployment
Activities of new agencies	Office support subcontracting (later dispatching); job advertisement magazine publishing	Labour provision for foreign businesses; personnel recordkeeping, re-employment support, and talent recruitment for domestic employers
Main area of influence	External labour market	External and 'quasi-internal' labour markets

Phase 2 (mid-1990s to 2000s): agency boom along with liberalization		
	Japan	*China*
Institutional characteristics	• Rising labour market needs for flexible employment. • Deregulation and promotion of for-profit employment agencies. • Similar legal structure for 'triangular' relationship among agencies, employers, and workers.	
Agency characteristics	• Utilisation of agencies in China catching up with Japan in scale and service contents. • Formation of four types of 'traditional' services (intermediation, advertising, dispatching, subcontracting). • Widespread exploitative practices, which became public scandals. • Digitalisation of existing agencies in Japan, emergence of IT ventures in China.	
Structure of agencies	Private companies	SOEs, government organizations, and private companies
Main purpose of agencies	To gain new clients, and to respond to their needs for flexible employment	To promote flexible employment and to help their clients evade labour contract regulations
Main agency activities	'Traditional' services	'Traditional' services
Main area of influence	External and 'quasi-internal' labour markets	External and 'quasi-internal' labour markets

Phase 3 (from around 2010 on): rebalancing liberalization and workers' protection		
	Japan	*China*
Institutional characteristics	• Tightened employment regulations for labour dispatching (both countries). • Government strategy to bridge the gap between 'standard' and 'non-standard' employment in Japan. • Government strategy to promote flexible labour markets in China.	
Agency characteristics	• Chinese agencies surpassing Japan in scale, service contents, and influence on gov. and corporate strategies. • Development of 'non-traditional' services in addition to the existing 'traditional' services. • Abolition of paper-based services, replaced by online services. • Fastest growing services are individual-focused in Japan while group-focused in China.	
Structure of agencies	Private companies	SOEs and private companies
Main purpose of agencies	To maintain existing client relations with specified and diversified services	SOEs to maintain client relations with expanded services; private companies to cultivate new clients
Main agency activities	Diversified 'traditional' services (sometimes combined with 'non-traditional' services)	Slowdown of 'traditional' service development; rapid rise of 'non-traditional' services
Main area of influence	External and 'quasi-internal' labour markets	External, 'quasi-internal', and internal labour markets

Both Japan and China experienced rapid labour market deregulation and an employment agency boom during Phase 2. In Japan, the rising popularity of newly founded private agencies during Phase 1 prompted policy makers to consider their possible contributions, which led to a series of deregulatory policies to allow for-profit employment agencies in Phase 2, with the most notable change being the legalisation of privately-run labour dispatching and job intermediary services. In China, policy makers and agency managers intently studied Japanese employment agency policies and practices, and adopted a similar stance of limiting for-profit agencies during Phase 1, but promoting them during Phase 2. Reflecting this change, explicit justifications for private employment agencies began to appear in government documents in the mid-1990s in China, painting them as a new, hopeful means to somehow stabilise labour markets through flexible employment.

Along with the rise of for-profit employment agencies during Phase 2, the division between public and for-profit employment services began to solidify in both countries, and the latter took the shape of four major types of 'traditional' services still performed today: recruitment advertising, job intermediation, labour dispatching, and subcontracting. In China, these profit-seeking agencies not only included private agencies, most of which were founded during Phase 2, but also state-owned agencies that had spun out from the public employment service units established in Phase 1. For-profit employment agencies experienced the most drastic growth during Phase 2 in both countries, but Chinese agencies expanded much faster, rapidly catching up with Japan in terms of service content, scale of operation, and to some degree, agency regulations.

With China learning from Japanese agency policies and practices, the four types of 'traditional' services were defined similarly on paper in both countries, showing four distinctive 'triangular' legal relationships among employment agencies, employers, and workers. Accordingly, Japanese and Chinese agencies behaved similarly in many ways during Phase 2. Overall, employment agencies in both countries became a common means to avoid the responsibilities associated with signing direct employment contracts, and to quickly and cheaply find dispensable workers without recruitment hassles. Particularly, publicly-funded employers in both countries commonly sought agency workers after reaching their maximum employment cap, usually at the discretion of individual departments or branches, and agency workers were budgeted under 'operational cost' instead of 'personnel cost'.

Despite similar legal structures on paper, distinctions among the four types of 'traditional' services were much more clear in practice in Japan than in China. In Japan, job intermediary and labour dispatching services matched individual workers to employers looking for certain skills or attributes, while subcontracting arrangements were mostly used for projects that required a group of workers. While there were frequent violations of supervisory requirements, contractual

relationships were clear in Japan; workers signed direct contracts with employers upon job intermediation, and with agencies for dispatching and subcontracting.

By comparison, in China, all types of 'traditional' services were mainly arranged for gathering a group of workers for a set time period, with the exception of headhunting high-skilled individuals. In addition, while labour contracts were strictly required for 'regular' workers at large employers, contractual requirements for agency workers remained lax until the 2008 Labour Contract Law, making employment agencies a popular tool for avoiding contractual responsibilities all together. This meant that despite the clear distinction on paper, 'traditional' agency services (intermediary, dispatching, and subcontracting) all followed a similar workflow in China during Phase 2, which allowed agencies to easily re-label their services according to regulatory changes and clients' preferences.

Due to underdeveloped or loosened regulations and lack of monitoring, exploitative 'grey zone' practices became rampant in both countries during Phase 2. The most ubiquitous was 'disguised subcontracting' (in Japan) and 'fake outsourcing' (in China), which neglected supervisory requirements, but also common was 're-hire dispatching', through which employers laid off their 'regular' workers and hired them back through employment agencies to do the same job with lower wages and welfare. Various creatively exploitative practices developed during Phase 2 were certainly unexpected outcomes for policy makers, but they were not promptly sanctioned due to prioritization of employer profits and the protection of 'regular' workers, even if it meant that they were achieved at the expense of precarious agency workers.

However, toward the end of Phase 2, a series of legal scandals brought exploitative agency practices to public light, and coupled with the 2008 global financial crisis, policy makers in both countries began to place heavier emphasis on protecting workers' rights during Phase 3. Most notable in both countries was the tightening of regulations for labour dispatching, the service that led to the most varieties of 'grey-zone' practices in Phase 2. The effects of policy shifts showed great variance between Japan and China. In Japan, labour dispatching continued to grow during Phase 3, albeit more gradually than in Phase 2, within the newly regulated environment. By contrast, in China employers and agencies shifted much of their dispatching to unregulated outsourcing arrangements to evade strict dispatching rules, which was easily possible due to their workflow similarities.

Not limited to dispatching, employment agency practices overall showed continuity from Phase 2 to Phase 3 in Japan, but drastic change in China. Despite Japan's new policy attempts to bring agency workers to the equal status of 'regular' workers, the responses of most Japanese employers to meet such requirements have been a minor tweaking of existing employment systems during Phase 3, and employment agencies are still used to supplement 'standard' employment for

the most part. The priority of Japanese employment agencies has become the maintenance of existing client relations, and their growth has mostly been reactive to the gradually rising need for flexible workers.

In comparison, the function of Chinese employment agencies during Phase 3 experienced a great transition from the existing 'traditional' services to much more comprehensive and strategically involved 'non-traditional' services. It became common for large employers, including government organisations, to outsource some or all of their recruitment and human resource management processes to employment agencies in order to reduce the burden on their own human resource departments. Together with increased seminars, training, and consulting services, employment agencies in China rapidly influenced core corporate and government human resource policies. These practices and various national documents promoting employment agency activities confirm that employment agencies are key players in China's economic and social development today.

Chinese employment agencies have now surpassed Japan in terms of their strategic influences. However, the gradual rise of 'non-traditional' services in Japan and their possible contributions to labour markets should not be neglected. While Chinese agencies have rapidly expanded during Phase 3 with their ability to gather and process large groups of workers, Japanese agencies have been focusing more on diversely and specifically catering to individual workers' and employers' needs by patchworking various 'traditional' and 'non-traditional' services. In addition, Japanese agencies have also been continuously cultivating new worker pools, with the most notable being the recruitment of retired workers and foreign workers, as well as training provisions for transferable skills. These practices suggest that employment agencies in Japan may become a more influential labour market player in the near future, providing a solution for population ageing, worker shortages, and skill deficits.

Table 6.3: 'Traditional' and 'non-traditional' services in three layers of labour markets

Internal labour markets *('standard' employment relations)*	**'Quasi-internal' labour markets** *(recruitment of 'regular' workers)*		**External labour markets** *(provision of 'non-regular' workers)*
Consultancy Training and seminars HRM outsourcing HRM software development Research and data analysis	RPO (recruitment process outsourcing) Online job application software development	Headhunting Job advertising for 'standard' employment Job intermediation for 'standard' employment	Dispatching Subcontracting Job advertising for 'non-standard' employment Job intermediation for 'non-standard' employment
'Non-traditional' services			**'Traditional' services**

Table 6.4: Rough estimates of annual agency growth rate and share of 'non-traditional' services in three phases of evolution

Phase 1 (until mid-1990s)		
	Japan (created between 1960 and mid-90s)	*China (created between 1979 and mid-90s)*
Average annual growth	10% in revenue	Over 100% in number (mostly public agencies)
(Of which, share of 'non-traditional' services)	Negligible	Negligible
Phase 2 (mid-90s to 2000s)		
	Japan	*China*
Average annual growth	20% in revenue	Over 100% in revenue
(Of which, share of 'non-traditional' services)	Less than 1%	Less than 1%
Phase 3 (around 2010-)		
	Japan	*China*
Average annual growth	10% in revenue	40% in revenue
(Of which, share of 'non-traditional' services)	**Less than 10%**	**Over 80%**

**Estimates of 'non-traditional' services were made based on interviews and IR reports of large agencies in Japan; interviews and annual blue papers of human resources in China.*

Implications for employment agency influence

The above findings revealed that employment agencies in both Japan and China have increased their influence on labour markets along with their service expansions. Although it is difficult to quantify the level of influence, I will attempt to evaluate and compare them in this section, first regarding the influence of employment agencies on employment practices, then on employment policies.

Employment agency influence on employment practice

The activities of employment agencies can be organised according to (1) two types of employment agency services ('traditional' and 'non-traditional'), (2) three layers of labour markets (internal, 'quasi-internal', and external), and (3) three evolutionary phases, as shown in Table 6.3 and Table 6.4. During Phase 1 and 2, employment agencies in both Japan and China almost exclusively offered 'traditional' services within external labour markets, with the exception of some 'regular' worker recruitment services within 'quasi-internal' labour markets. This meant that despite the rapid growth of employment agencies in both countries during Phases 1 and 2, they were mere providers of 'non-regular' workers for the most part, and had very little direct influence on their clients' core human resource strategies that prioritised the protection of 'standard' employment relations.

The establishment and expansion of employment agencies during Phase 1 and 2 enabled employers to easily adopt and increase the ratio of flexible 'non-standard' employment. By being incorporated as part of hiring plans, it can be argued that employment agencies indirectly influenced their clients' human resource strategies during Phases 1 and 2. More speculatively, because of the growing presence of employment agencies in external labour markets, they might have paradoxically contributed to the tenacious persistence of 'standard' employment practices; even though changes in management strategies seemed inevitable as the need for flexible employment systems grew for most employers, they were able to avoid totally reforming their human resource management systems by using more agency services to maintain a reduced ratio of 'standard' employment.

A more definite influence of employment agencies on labour markets during Phase 1 and 2 was the expansion of external labour markets via flexible workstyle promotion. In Japan, employment agencies painted fashionable and trendy images through advertising campaigns and creative products, which led to increased labour market participation of the non-working population, especially students and housewives taking on part-time or dispatching jobs. In China, employment agencies were advocated as the new solution for unemployment problems, and provided many laid-off workers with temporary jobs through various 'traditional' services. However,

their positive images were completely shattered when legal and political scandals widely exposed exploitative practices in both countries.

During Phases 1 and 2, activities of employment agencies in 'quasi-internal' labour markets were mostly limited to the recruitment of individual skilled workers through 'traditional' job intermediary and headhunting services. However, during Phase 3, employment agencies greatly increased their presence in 'quasi-internal' labour markets not only through the expansion of these individual-based 'traditional' services, but also through the development of 'non-traditional' services. A common example is RPO (recruitment process outsourcing), which involves hiring groups of 'regular' workers at a time, especially new university graduates. While RPO mainly targeted small firms in Japan, it quickly became the standard practice in China regardless of employer size, and included the recruitment of government workers.

Another example of 'non-traditional' services within 'quasi-internal' labour markets is the development of digital tools for online job applications. In China, various employment agencies and IT companies have been contracted to develop online job application systems for clients, whereas such systems have been predominantly designed by Recruit in Japan. Nonetheless, these examples of outsourcing and digitalisation suggest that employment agencies are influencing the establishment of new 'standardised' recruitment practices for 'standard' employment during Phase 3.

In addition, by expanding their roles within 'quasi-internal' labour markets, employment agencies have significantly increased their influence on the recruitment of core workers, as well as their long-term, indirect influence on clients' corporate management. In many cases, they became the pre-selector, co-selector, or even sole-selector for core workers who, unlike 'non-regular' workers, will enjoy full company membership, are likely to be promoted to management positions, and will eventually participate in the shaping of company strategies. Also, by taking on the recruitment of government workers, employment agencies are indirectly influencing the selection of future policy makers.

More direct influences on corporate strategies and practices, particularly on human resource management (HRM), also increased greatly during Phase 3 through the provision of 'non-traditional' services relevant to each client's internal labour market, as listed in Table 6.3. All these 'non-traditional' services grew in both countries, but in general, the most significant increase was seen in training and seminars for Japanese employers, HR consultancy for Chinese employers, HRM outsourcing and software development for smaller employers in both countries, and joint research projects with public employers in both countries.

As discussed throughout this thesis, the growth of employment agencies, as well as their involvement in internal labour markets, has been much more dynamic in China than in Japan. Table 6.4 provides a rough estimate of Japan's and China's overall employment agency growth and the ratio of 'non-traditional' services in each evolutionary phase. These numbers provide implications for the level and field of influence employment agencies have had on labour markets in both countries, which can be summarised as follows:

(1) The influence of employment agencies has been growing continuously in both countries, but at a much faster rate in China than in Japan; (2) despite the most rapid growth of employment agencies occurring during Phase 2 in both countries, their increased influence has been primarily on external labour markets through 'traditional' services; (3) while Japanese employment agencies continue to increase their presence within external labour markets, Chinese agencies have shifted their businesses to 'non-traditional' services during Phase 3, greatly increasing their influence on 'standard' employment practices and corporate HR strategies within internal and 'quasi-internal' labour markets.

Tentative conclusion of employment agencies' policy influence

Not only have employment agencies influenced employers' practices in all the layers of labour markets discussed above, they have been influencing labour market policies as well. My analysis of employment agencies' policy influence is less holistic because most interviewees were secretive about the policy drafting process, but nonetheless, my research shows that employment agencies have undoubtedly been involved in every step of policy-making. In this section, I will summarise what I have encountered so far.

The initial policies that led to the rise of for-profit employment agencies were relatively 'reactive' in Japan but 'proactive' in China. In Japan, the gradual deregulation of for-profit agencies reflected the rising popularity of new services created by employment agencies or their precursors; in China, the initial founding of for-profit employment agencies occurred after the government had officially endorsed them as a useful means to mitigate unemployment. From then on, the co-evolution of employment agency practices and its relevant policies could be described as a spiral development process. Figure 6.1 shows overall policy making steps and the level of Japanese and Chinese employment agencies' involvement in each step using large and small arrows, and Table 6.5 details the observed activities in the two countries.

Within such co-evolution, employment agencies have had both direct and indirect policy influences. Direct influences occur by agencies participating in various steps of policy drafting, whereas indirect influences are the consequences of agency responses to formally-implemented

regulations, which often prompt the development of new reactive policies. Direct participation and associated influence of employment agencies start at the early stages of policy-making process prior to the formation of official policy draft teams. Employment agency influence at this stage can be both positive and negative. It may include petitioning for deregulation, actively blocking or sabotaging the creation of new policies, and helping policy makers with brainstorming by preliminarily studying employment agency practices and potential regulatory needs.

After a formal policy draft team is established by the government, employment agencies participate in government-initiated research projects and policy draft meetings wherein they are expected to make practical suggestions for detailed clauses, but are less likely to cause drastic changes to the general gist and purpose of the policy in-draft. At this point, many agency managers begin to form new operational strategies to promptly react to the policy change about to be announced. As shown throughout this thesis, the responses of employment agencies to new policies vary greatly and are often unexpected, ranging from active compliance according to policy intentions, to 'grey zone' practices by creatively interpreting policies or finding loopholes, or a complete shift of business to unregulated fields. Unexpected agency behaviours often have indirect but powerful policy influences as they prompt the development of new reactive policies.

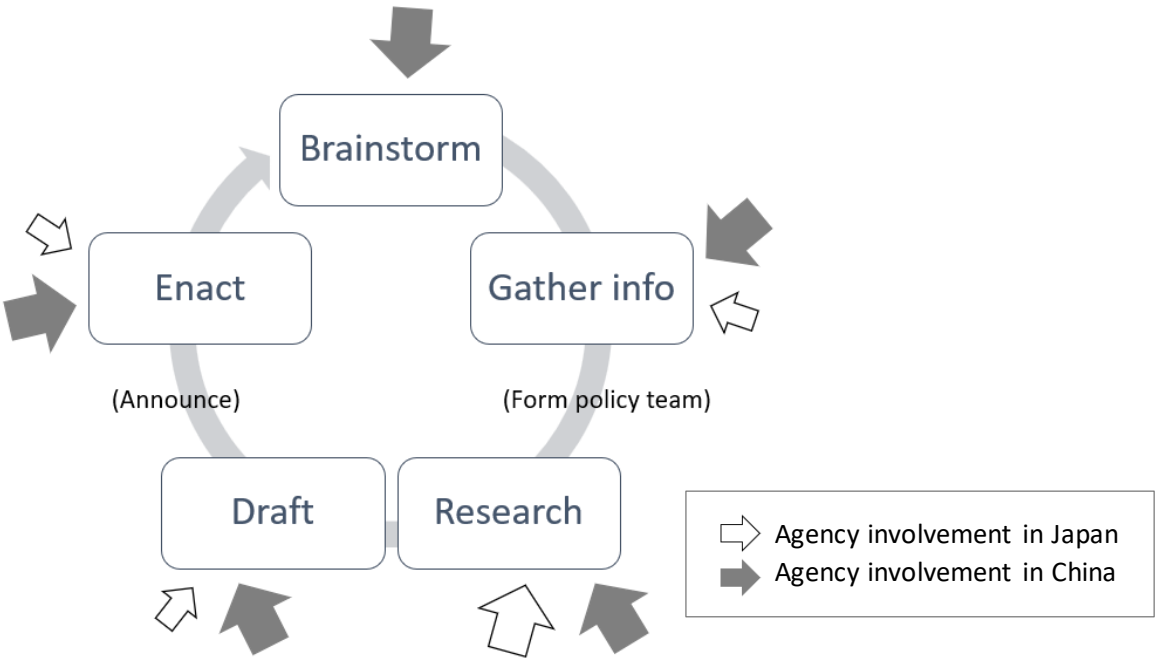


Figure 6.1: Policy making steps and the level of employment agency involvement

Table 6.5: Spiral process of policy development and employment agency participation

Policy-making process	*Ways to influence policy by employment agencies*	*Comparison of observed or recorded actions*
Brainstorming & Information gathering (before forming research & draft teams)	New agency practices that prompt possible needs for new policy or revision	Widely observed in both countries
	Provision of 'non-traditional' services (consulting and seminars) to government organizations	Widely observed in Phase 3 China
	Initiation of joint projects with public organisations	Observed in Japan (by both business associations and individual agencies)
Research & Draft (formal teams)	Informal conversation among agency managers, business associations, and policy makers	Widely observed in China
	Formal conversation between agency managers and policy makers	Recorded at early stage of agency development in Japan (e.g. being summoned for questions)
	Formal conversation between business associations and policy makers	Widely observed at regional level in China (e.g. meetings for questions and research planning)
	Bribery to manipulate or sabotage policy making	e.g. Recruit scandal; unknown in China (but potential actions observed at public-private agency interaction)
	Petition/report submission initiated by business associations	Recorded in both countries but more commonly in Japan
	Petition/report submission by individual agencies	Observed at large Chinese agencies (both SOE and private)
	Lobbying	Not observed (but sometimes mentioned during interviews)
	Participation of business associations in government-initiated policy/market research projects	Widely observed/recorded in both countries
	Participation of individual agencies in government-initiated policy/market research projects	Widely observed at large Chinese agencies (both SOE and private)
	Participation of business associations in formal policy draft meetings	Widely observed/recorded in both countries, from initial draft stage in China but later stage in Japan
	Participation of individual agencies in formal policy draft meetings	Widely observed at a local level in China
Announcement & Implementation	Business development reflecting new policy change	Widely observed/recorded in both countries
	'Grey zone' businesses by finding loopholes or via creative policy re-interpretation	Widely observed/recorded in both countries; most drastic during Phase 2
	Entire shift of business to unregulated areas	Widely observed in China

Although it may seem that the authoritarian nature of Chinese government would curtail the political influence of market actors, employment agencies have actually been much more successful at influencing relevant policies in China than in Japan. This is because policy makers in China push more actively for employment agency participation in the development of labour market policies and strategies. It can therefore be argued that the greater policy influence was because of, not despite, strong government leadership. The rest of this section will discuss factors contributing to the different levels of policy influence in both countries.

First and foremost, the motivation to 'flexibilize' labour markets is aligned across actors in China as discussed in chapter three. This means that employment agencies and policy makers in China are less likely to have strong conflicts regarding labour market strategies, and are cooperatively accelerating toward their desired outcomes. In Japan, the persisting motivation of policy makers and large employers to maintain 'standard' employment relations often directly opposes employment agency efforts to expand 'non-standard' employment, which prevents most drastic changes.

Relatedly, as discussed in chapter three, the differing roles played by business associations in the two countries affect levels of policy influence. Because most major employment agency business associations are organised by various levels of government in China, their policy suggestions are more easily and readily heard by policy makers. Although this arrangement is less likely to reflect employment agency opinions that directly conflict with government strategies, so far, the benefit has outweighed the cost, since actor motivations are relatively aligned compared to Japan. The fact that Japanese business associations only represent the interests of their member agencies and have a much weaker link with the government, combined with the unaligned motivations of the government and these agencies, significantly lessens their policy influence compared to China.

The close ties among policy makers, employment agencies, and business associations in China can also be seen in their informal connections. It is common in China for managers at these three organisations to casually call each other, especially during the initial brainstorming stage of policy development, enabling the informal yet direct policy influence of employment agencies. Such informal interactions were not observed in Japan, and the opportunity for individual agencies to participate in policy-making were slim. It seems that the negative legacy of political scandal has yet to dissipate there, and employment agencies have not fully regained the trust of policy makers. Despite the weak influence of Japanese business associations, they are a necessary collective 'buffer' between agencies and policy makers, and are still the main way agencies formally participate in policy development.

Moreover, government organisations in China are the largest clients of 'non-traditional' employment agency services, which presents employment agencies with various opportunities to influence the development of new policies, such as the provision of consulting, training, seminars, and research services. In addition, as discussed above, Chinese employment agencies are heavily involved in the selection process of future policy makers by undertaking RPO (recruitment process outsourcing) for governments in many provinces. In contrast, Japanese employment agencies primarily provide 'traditional' services to clients in both public and private sectors, which contributes to the increase of 'non-regular' workers in both sectors but does not lead to major policy influence. (A possible change in Japan will be discussed in next section.)

Lastly, the lack of monitoring and the 'wait and see' stance taken by the Chinese government for many aspects of employment agency practices create greater room for agencies to easily, creatively, and rapidly change businesses. This drastic development of employment agency services forces policy makers to either develop more reactive policies, or purposefully leave them unregulated for the time being. Today, this can be seen in the contrast of strict labour dispatching regulations and intentionally unregulated outsourcing services in China. Whichever the case, it is clear that Chinese agencies have greater policy influence, both directly and indirectly, than Japanese agencies.

Limitations and further research

This research revealed many unexplored aspects of for-profit employment agencies in Japan and China: their similar evolutionary patterns and timings, their increased influence on labour markets, and a more drastic growth of agencies and influence in China than in Japan. In this section, I will discuss the next possible steps to complement or expand this research by listing the limitations of this thesis and future research suggestions.

While this thesis identified various ways employment agencies influence labour market policies and practices, and the stronger overall influence in China than in Japan, the actual scale of policy influence is still unclear and could be more systematically studied. For influences on employment practices, I was able to make a rough estimate of changes by combining various government statistics, revenue reports, and oral history. My analysis of policy influence is more case-specific; indirect policy influences are examined by studying employers' and agencies' reactions to certain major policy changes, whereas analysis of direct policy influence (during the drafting process) is predominantly reliant on interviews. A possible way to more comprehensively assess employment agency influence on policy-making would be to review draft meeting minutes for all

major policy changes. However, not all meetings are recorded or easily accessible, and it would not inform informal influences which played important parts in China, and possibly in Japan as well.

In addition, in order to highlight horizontal interactions and mutual influences among labour market actors, this thesis treated actors as equals for the most part. However, the power dynamics among actors are also worth examining. An obvious case is the strong government leadership in China described as 'hierarchical direction'. Despite the growing presence of employment agencies, they still may not hold enough power to directly oppose government intentions. For example, if the Chinese government decided to impose strict regulations on outsourcing in the near future, I suspect employment agencies would have to find new ways to evade those regulations instead of trying to stop their development. Another case is the power of large employers in Japan. Although corporate documents tend to describe employer-agency relations as a 'partnership', there is an obvious client-server relationship, and in many cases employment agencies seem to be prioritising their clients' needs even over government policies.

So far, I mainly focused on large employers and employment agencies because I expected them to have more power than smaller companies to influence labour markets. However, the practices of smaller or less popular employers should also be studied. In fact, based on cases I have encountered so far in both Japan and China, employment agencies are even more strategically involved in HRM (corporate human resource management) of smaller employers. This is because smaller employers in both countries are having greater difficulty recruiting and retaining skilled-workers, and are forced to adapt to higher levels of flexible employment practices with the help of employment agencies. They are also eager to reduce the burden on their human resource managers, and hence are the main clients for HRM outsourcing and HRM software development provided by agencies.

Because employment agencies are active in all layers of labour markets today, this research can be connected to almost any socioeconomic issue that involves employment of people, one of the most important of which being demographic change. Population ageing and worker shortage are imminent problems in Japan, but China is following the same trajectory. The abundant 'cheap' labour in China is rapidly declining, and they will soon face a shortage of both skilled and unskilled workers. The role employment agencies play, or may play, to mitigate this problem should be addressed from the perspectives of inter-employer worker mobility, employment of non-working populations to quantitatively expand labour markets, and relevant labour market policies.

Another relevant direction this research could take would be to examine the link between digitalisation and flexibilization of labour markets. The development of digital technologies has influenced the evolution of employment agency practices in various ways, from mere paper-to-

online transfers, to the designing of new HRM software and other complex services developed based on accumulated employer and worker databases. As the digitalisation of employment agencies accelerates, their functions may increasingly overlap with IT companies (which is already happening in China), and with the rising online 'platform' or 'gig' economy. I suspect that analysing the link between digitalisation and flexibilization of labour markets may help to identify factors that contribute to unequal labour market outcomes and precarious employment in Japan and China.

Employment agencies have undoubtedly become a powerful labour market actor in both Japan and China, and I expect their influences to continue to grow. For this reason, both academics and practitioners can benefit from further study of the roles of employment agencies in labour markets.

Final remarks: ***The growing influence of employment agencies – good or bad?***

On one hand, the evolution of employment agencies has helped employers to adapt their human resource management practices according to labour market changes. Unfortunately, on the other hand, the co-evolution of employment agencies and flexible labour markets has also been associated with increased exploitation, precariousness, and inequality. Can employment agencies contribute to the mitigation of such issues rather than exacerbating them? Although I do not have clear answers yet, a realistic way to tackle this question would be to continue with area-focused studies of labour markets. My research so far hints that the roles employment agencies play are strongly influenced by large employers and government policies. With this in mind, I would like to end this thesis by pointing out some recent changes that may lead employment agencies to actively contribute to more equal labour market outcomes in Japan and China in near future.

Both Japanese and Chinese governments have begun emphasising the pursuit of an evenly regulated, yet flexible labour market in recent years. In Japan, this policy shift can be seen particularly in the government's narrative change from the preservation of 'standard' employment relations at the expense of 'non-standard' employment relations to the protection of individual workers, regardless of their employment status, by bridging the gap between 'standard' and 'non-standard' employment. The enactment of 'work-style reform' laws in 2018 and 2019 was a crystallization of this policy shift, which recognised the need for workstyle diversification and required employers to raise the wage and welfare of 'non-regular' workers to the same level as those of 'regular' workers. This worker-oriented market development became one of the core strategies of Japan's 'new form of capitalism' announced in 2021, and the 'trinity' reform of labour markets in 2023, which I will discuss further at the end of this thesis.

In China, until recent years, its policy has prioritised rapid GDP growth and elimination of extreme poverty while allowing uneven and unregulated labour market development, viewing it as a necessary process to quickly achieve their overall economic goals. With the slowing of rapid growth and the end of extreme poverty in sight, the 2018 Interim Regulation on Human Resource Markets was the first attempt to regulate the labour market as a whole, and it defined the legal responsibilities of labour market actors, including public and private employment agencies. In 2021, at the centennial anniversary of the Communist Party of China (CPC), China declared its successful elimination of poverty and achievement of a 'moderately prosperous society' (*xiaokang*), and its turn to a new developmental stage where quality of development is more important than speed.

The core visions of new Japanese and Chinese economic strategies are similar; they attempt an equal and sustainable socioeconomic development by emphasising innovation, distribution, environmentalism, and most importantly, the individual worker. However, it seems that companies and government organisations are still in the initial experimental stage of enacting new policies, so changes in practice have been slight, and success will be reliant on employer practices and effective monitoring.

A major challenge employers and policy makers face is the need to promote equality among workers without hindering labour market flexibility. As mentioned in chapter one, egalitarian ideologies were reflected in the expansion of 'standard' employment systems and internal labour markets during the post-WWII era in both countries, but this expansion greatly limited inter-company mobility. However, the growth of flexible employment is inevitable at this point, and fully reverting back to 'standard' employment relations would not be a practical means to achieve the policy goals of equality and sustainability.

So how do we reconcile the need for employment flexibility with the rising pressure to shrink inequality? My natural suggestion is to consider the roles employment agencies can play. Although they have been contributing to unequal labour market outcomes both directly and indirectly, they can also have the opposite influence, particularly by helping companies and governments accelerate the enactment of new policies that aim to overcome labour market segmentation. I will end this thesis by presenting how employment agencies can participate in the 'trinity' reform of labour markets recently announced in Japan.

At the sixteenth 'realisation of the new form of capitalism' meeting[76] held on 12 April 2023, the Japanese government consolidated its labour market goals as the 'trinity' (*sanmi-ittai*) reform of labour markets. The reform is designed to simultaneously carry out three overlapping changes: re-

[76] Meeting documents can be found at the Japanese Cabinet Secretariat website, https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/kaigi/dai16/gijisidai.html (retrieved 07 May 2023).

skilling, job-based employment, and inter-company mobility. This government vision aligns with the evolutionary trajectory of employment agencies, and is likely to increase their influence and participation in the gap reduction between 'standard' and 'non-standard' employment, or between 'internal' and 'external' labour markets. Below are some examples of possible ways employment agencies can contribute to this 'trinity' reform.

- *Expansion and diversification of existing services*. 'Traditional' services discussed throughout this thesis will continue to promote the development of external labour markets. In particular, increasing mid-career job changes and side jobs,[77] as well as strengthening unemployment and re-employment support, will greatly contribute to inter-company mobility.
- *Training for specific and transferable skills*. So far, Japanese employment agencies have been most active in providing HR-related seminars and company-specific training classes outsourced by client companies, but re-skilling/up-skilling training services that are open to all individuals will help develop transferable skills and lead to job-based employment and inter-company mobility.
- *Designing industry-wide job descriptions*. Some companies such as Hitachi have been implementing skill-specific job description, certification, and job change systems to be used within its group companies for worker allocation, evaluation, and promotion.[78] Based on existing domestic and foreign practices, employment agencies can be actively involved in the standardization of such practices across companies through consultancy, certification development, and online tool designing.
- *Quantitative expansion of labour markets*. Employment agencies in Japan have been evolving by cultivating new worker pools such as housewives, students, retired workers, and more recently, foreign workers. Development of job-based employment to match a 'global standard' will be increasingly important as the need for employing foreign workers continues to grow.
- *Cross*-sector *collaboration*. The 'trinity' reforms require localised employment and unemployment support, which will likely increase the role of local public employment security agencies (Hello Work). As shown in chapters three and four, collaboration between public and private employment agencies has had mixed results so far, but they may be

[77] According to Ôura (2023), gaining side jobs is one of the most effective ways for re-skilling and up-skilling.
[78] Example of Hitachi can be seen in https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/bunkakai/roudousijou_dai1/siryou6.pdf (retrieved 07 May 2023).

augmented under new policies. Not limited to Hello Work, the aligned motivation to increase labour market flexibility will generate more opportunities for employment agencies to participate in government policy making processes. For example, the first 'trinity' labour market reform subcommittee meeting was held on 26 April 2023, and of the fourteen regular committee members, two were employment agency managers (of Recruit and Persol), hinting at an increased policy influence of employment agencies in Japan.

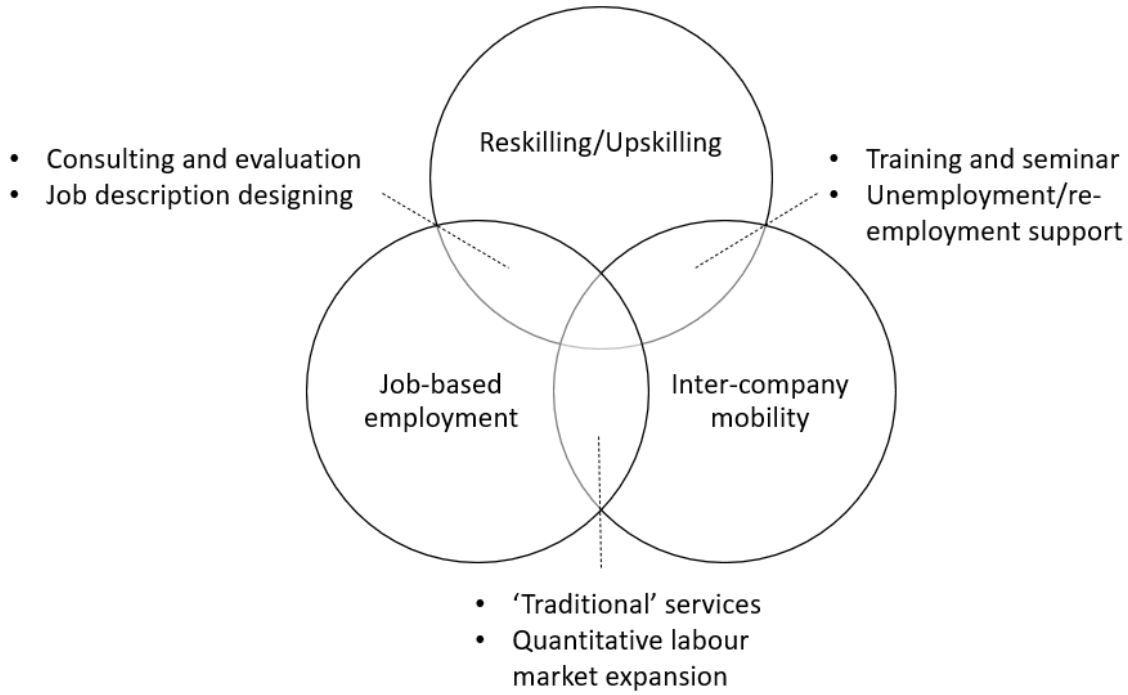


Figure 6.2: The 'trinity' labour market reform and possible contributions of employment agencies

Figure 6.2 shows the three dimensions of 'trinity' reform (with three overlapping circles) and ways employment agencies can participate in the reform (in bullet points, all but one are 'non-traditional' services). The dotted lines point to the two fields on which each agency activity will have direct and immediate influence, but it is important to note that they will contribute to all three dimensions indirectly. While Chinese policy makers looked to Japanese practices when developing employment agency regulations during Phases 1 and 2, now may be time for Japanese employment agencies and policy makers to study Chinese practices, especially in developing 'non-traditional' services and agency-government interactions. By tracing the evolution of employment agencies and re-considering their roles, both Japan and China may discover ways to overcome labour market segmentation and realise the coexistence of diversity, flexibility, and equality.

Appendix A: List of interviewees

JAPAN

Employment agencies						
Code	**Interviewee Title**		**Ownership**	**Interview Month**	**# of interviews**	**Gender**
JA1	HR manager		Private	April 2019	3	M
JA2	Director of government relations		Private	April 2019	1	M
JA3	Owner		Private	April 2019	2	M
JA4	Researcher		Private	April 2019	1	M
JA5	Chief editor of job magazines		Private	May 2019	2	F
JA6	HR director & assistant		Private	May 2019	2	M,F
JA7	Consultant		Private	December 2019	1	M
Large employers (companies)						
Code	**Interviewee Title**	**Main Business**	**Ownership**	**Interview Month**	**# of interviews**	**Gender**
JE1	Chief researcher & government relations manager	Research	Public	March 2019	2	M,M
JE2	HR manager	Advertising	Private	April 2019	2	M
JE3	HR manager	Consulting	Private	April 2019	1	M
JE4	Analyst	Chemical	Private	April 2019	1	M
JE5	HR manager	Electronics	Private	April 2019	1	F
JE6	HR manager	IT	Private	May 2019	1	M
JE7	Legal consultant	Pharmaceutical	Private	May 2019	1	F
JE8	HR manager	Insurance	Private	May 2019	2	M
JE9	HR manager	Maintenance	Private	May 2019	2	M
JE10	Sales manager	IT	Private	May 2019	1	M

JE11	Analyst	Bank	Private	May 2019	1	M
JE12	HR manager	Railway	Private	May 2019	1	M
Other organizations						
Code	**Interviewee Title**	**Organization Type**		**Interview Month**	**# of interviews**	**Gender**
JO1	Director	Business Association		April 2019	1	M
JO2	Secretary general	Labour Union		May 2019	1	M
JO3	Director	Business Association		May 2019	1	M
JO4	Director	Government		May 2019	1	M

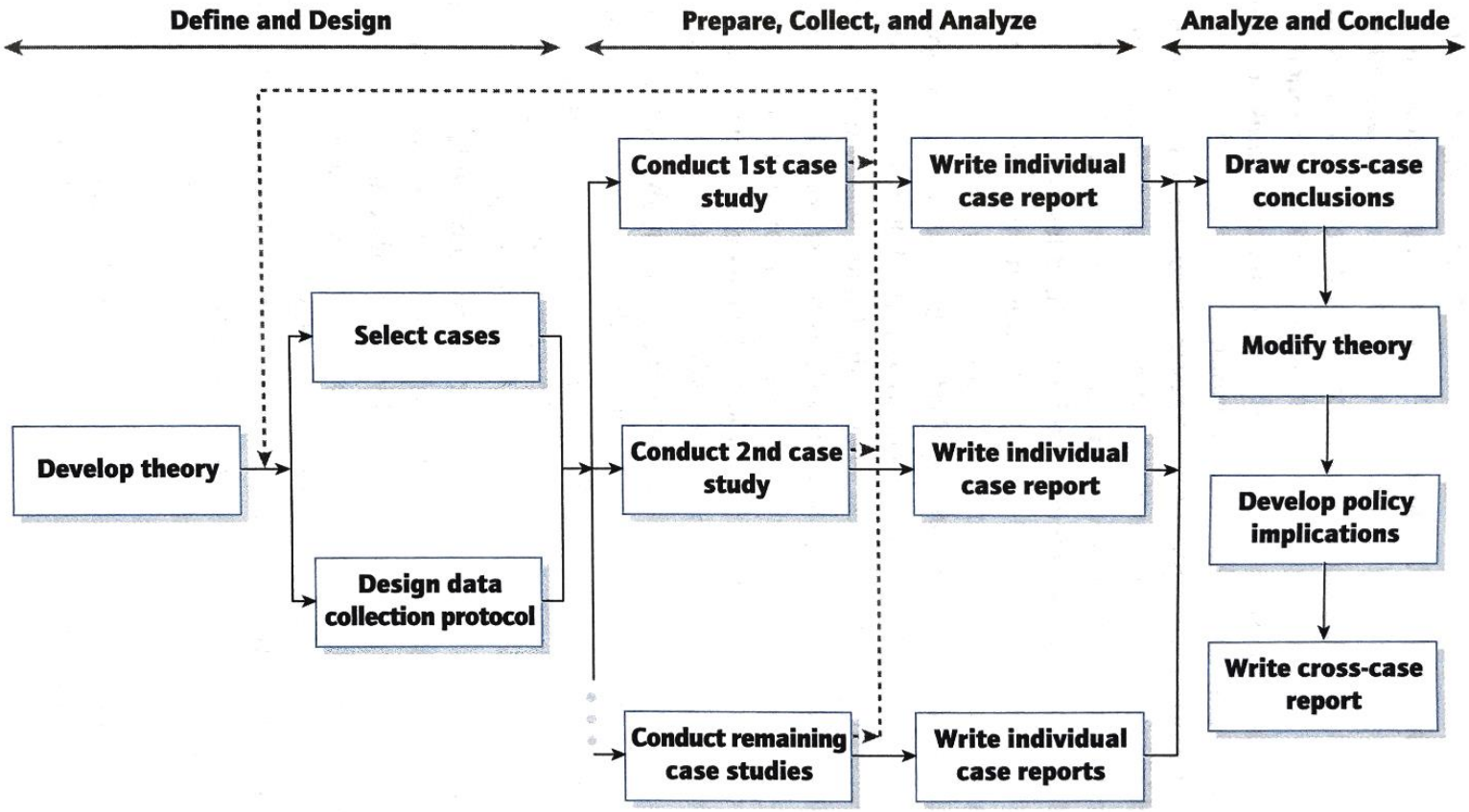
CHINA

Employment agencies							
Code	**Interviewee Title**	**Location**	**Ownership**		**Interview Month**	**# of interviews**	**Gender**
CA1	General manager	Beijing	State		November 2019	2	M
CA2	Deputy general manager	Beijing	State		December 2019	2	F
CA3	Founder	Beijing	State to Private		December 2019	1	M
CA4	General manager	Beijing	Private		December 2019	1	M
CA5	General manager & Business manager	Beijing	Private		December 2019	1	F,F
CA6	Owner	Beijing	Private		December 2019	1	M
CA7	Founder & Vice president	Beijing	Private		December 2019	1	M,F
CA8	Owner	Beijing	Private		December 2019	1	F
CA9	Business manager	Beijing	Private		December 2019	1	M
CA10	Business director & Sales manager	Beijing	Private		December 2019	1	M,F

CA11	Business director	Beijing	Foreign		December 2019	1	M
CA12	Vice president	Nanjing	State		November 2019	1	M
CA13	General manager	Nanjing	State		November 2019	1	M
CA14	Chairman & Secretary general	Shenzhen	State		January 2020	1	M,M
CA15	General manager & Business director	Shenzhen	State		January 2020	1	M,F
CA16	Business director	Shenzhen	State		January 2020	1	M
CA17	Vice general manager	Shenzhen	State		January 2020	1	M
Large employers (companies)							
Code	**Interviewee Title**	**Location**	**Ownership**	**Main Business**	**Interview Month**	**# of interviews**	**Gender**
CE1	HR manager	Beijing	State	Manufacture	December 2019	1	M
CE2	Vice general manager	Beijing	State	Steel	December 2019	2	M
CE3	Vice general manager & HR director	Beijing	State	Steel	December 2019	1	M,M
CE4	Government relations manager	Beijing	Private	IT	November 2019	2	M
CE5	HR manager	Beijing	Private	IT	November 2019	1	M
CE6	Founder	Beijing	Private	Material	December 2019	1	M
CE7	Vice president	Beijing	Private	Mining and trade	December 2019	1	M
CE8	Vice general manager	Nanjing	State	Construction	November 2019	1	M
CE9	Chairman	Shenzhen	State	Construction	January 2020	2	F
CE10	Senior business manager	Shenzhen	State	Construction	January 2020	1	F
CE11	Business manager	Shenzhen	State	Finance	January 2020	1	F
CE12	HR manager	Shenzhen	State	Finance	January 2020	1	M
CE13	HR manager (union relations)	Shenzhen	State	Bank	January 2020	1	F
CE14	HR director	Shenzhen	Private	IT	January 2020	2	F

Other organizations							
Code	**Interviewee Title**	**Location**		**Organization Type**	**Interview Month**	**Number of interviews**	**Gender**
CO1	Secretary general	Beijing		Business Association	November 2019	1	M
CO2	Director	Beijing		Government/Research	November 2019	1	F
CO3	Director	Beijing		Government/Research	November 2019	2	M
CO4	Business manager	Beijing		Industrial Park	November 2019	1	M
CO5	Director	Nanjing		Government/HR	November 2019	1	F
CO6	Director & assistant	Nanjing		Government/HR	November 2019	1	M,M
CO7	Chairman & Vice president	Shenzhen		Business Association	January 2020	1	M,M
CO8	Director	Shenzhen		Government/Law	January 2020	1	M
CO9	Deputy director	Shenzhen		Government/HR	January 2020	1	M
CO10	Dean	Shenzhen		University	January 2020	1	M

Appendix B: Yin's Multiple-Case Study Procedure



Appendix C: Changes in Japanese Labour Dispatching Law

1986 Legalised 16 occupations:

1. Operation of office machines
2. Software development
3. Interpretation/translation/stenography
4. Secretary
5. Filing
6. Investigation
7. Financial transactions/documents
8. Contract drafting
9. Sales demonstration
10. Tour guide
11. Building cleaning
12. Building maintenance
13. Reception/parking management
14. Mechanical design
15. Operation of broadcasting machines
16. Broadcasting programmes production

1990 Extended clerical dispatching length from 9 months to 1 year.

1994 Shifted to 'negative list' for dispatching retired workers

1996 Expanded permitted occupations from 16 to 26:

17. Research and development
18. Project operation planning
19. Editorial staff
20. Advertising design
21. Interior decoration/design
22. Media announcement/presentation
23. OA instruction
24. Telemarketing
25. Sales
26. Broadcasting stage preparation

1999 Shifted from 'positive list' to 'negative list':

- Construction
- Port transportation
- Security services
- Medical services
- Government certified professions (such as lawyers and accountants)
- Manufacturing

Extended dispatching length cap to 3 years for the above 26 occupations; other occupations were limited for 1 year.

2000 Legalised 'temp-to-perm' (*shoukai yotei*) dispatching, but prohibited pre-selecting workers by client.

2003 (enacted 2004)

Lifted 3-year dispatching cap for the '26 occupations'.
Extended dispatching period cap from 1 to 3 years for certain occupations.
Changed permits from per-office to per-company.
Legalised dispatching in manufacturing (with 1 year cap).
Legalised pre-selection of 'temp-to-perm' dispatching

2006 Lifted ban on medical services.

2007 Extended dispatching cap from 1 to 3 years for manufacturing.

2008 (draft)

Prohibition of pay-per-day dispatching.
80% cap of self-dispatching within group companies.
Disclosure of 'margin', calculated as (revenue – dispatched worker's salary paid) / revenue

2012 Banned short-term dispatching of less than 30 day (except 18 occupations).
Set 80% cap of self-dispatching within group companies.
Banned 're-dispatching' of former direct-hires who left within 1 year.
Mandated the disclosure of 'margin'.

2015 Mandated permits for all dispatching agencies, including 'specified' dispatching that previously did not require permits.
Changed dispatching length calculation methods, from agency-employer contract length to the length of individual workers being dispatched; the cap was set to 3 years for all occupations.
Mandated employment agencies to (1) negotiate direct employment with the recipient employer, (2) provide new dispatching work, or (3) permanently hire at the agency, if requested by the dispatched worker at the end of dispatching period.
Mandated 'career-up support' for workers, such as consulting, training, and information sharing to help them become 'regular' workers.
Mandated recipient companies to sign direct employment contracts with dispatched workers if the dispatching arrangement was proven illegal.

2018 (enacted 2020)

Introduced 'equal pay for equal work' systems between 'regular' and 'dispatched' workers.

Appendix D: Owners and establishment years of major employment agencies in China

Agency Name	Ownership	Year established
FESCO	State	1979
CJI	State	1980
Beijing Foreign Airlines Service	State	1982
Shenzhen Talent Group	State	1984
Shanghai Waifu	State	1984
Guangdong Youyi	State	1985
ChinaStar	State	1986
Ciic	State	1987
Beijing Talent Consulting Agency	Private	1993
Pengcheng HR Management	State	1994
Human Capital Group	State	1994
Adecco	Foreign	1995
Career	Private	1996
Zhaopin	Private	1997
China HR	Private	1997
Beijing Guanhua	Private	1999
51job	Private	1999
Beijing e-Town International HR	State to Private	2000
Beijing VKX	Private	2000
Manpower	Foreign	2000
CTG Human Resources	Private	2003
Randstad	Foreign	2005
58.com	Private	2005
Rimac Consulting Service	Private	2006
Qigongbao HR	Private	2007
Risfond	Private	2008
CJI Property Management	State	2016
Shenzhen Qianlima	State	2017

Appendix E: Relevant policies published during Phase 3 in China

2010 National Medium- and Long-Term Program for Talent Development (2010-2020)

2011 Provisions on High-Level Talent Search Services

2011 Catalogue for Guidance of Industrial Structure Adjustment (2011)

2011 The Twelfth Five-Year Plan for National Economic and Social Development ('125')

2012 Amended Labour Contract Law

2012 Outlines for Promoting Employment (2011-2015)

2012 Outlines for Developing Service Industry During the 12th Five-Year Plan

2013 Opinions on Accelerating the Integration of Human Resource Markets

2014 Interim Provisions on Labour Dispatch

2014 Opinions on Accelerating the Development of Human Resource Service Industry

2016 The Thirteenth Five-Year Plan for National Economic and Social Development ('135')

2016 Opinions on Deepening the Reform of Systems and Mechanisms for Talent Development

2017 Action Plan on the Development of the Human Resources Service Industry

2017 Model Outlines for Service Industry Innovation and Development (2017-2025)

2017 Outlines for Promoting Employment During the 13th Five-Year Plan

2018 Interim Regulation on Human Resource Markets

2019 Opinions on Maximizing the Role of the Market and Facilitating the Smooth and Orderly Flow of Talents

2019 Opinions on Further Regulating the Order of the Human resources Market

2021 The Fourteenth Five-Year Plan for National Economic and Social Development ('145')

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