

WHOSE MIRACLE ?

**How China's workers are paying
the price for its economic boom**

What all the fuss is about

Over the last decade pages of editorial have been devoted to marvelling at the phenomenon of China's economic development. The brighter than bright 'Chinese miracle' has blinded its admirers to its dark side. The term is used so frequently that most people do not even question its reality or query its underlying assumptions. If judged only by the widespread applause it has received, the 'miracle' indeed seems miraculous, here to stay and to change the world on its way. But figures alone can be an illusion, and clichéd expressions gloss over the complex and disturbing daily reality of Chinese life. Most of China's population, its peasants, would ask, "what miracle?" And the workers behind the so-called miracle, who live its unjust reality, would clamour "whose miracle?"

The Chinese economy has boomed. But only on the backs of the people it was supposed to benefit. As disclosed in this report:

- > China is still sweat-shopping its way to success, basing its competitiveness on unnaturally low wages and the exploitation of a workforce which has no means of representing itself.
- > China might have as many newly unemployed people as the rest of the world together and will have to create up to 300 million new jobs in the next decade to keep unemployment from rising to unbearable levels.

- > China's successful poverty eradication in the early 1980s has stagnated in the 1990s and the new millennium, and risks worsening further with the country's deeper integration into the WTO.
- > China is trading its way to the top of the ranks of the world's exporters but in this move also trading-in the progress of its people, a majority of whom stand to lose from further trade liberalisation.
- > China is experiencing a surge in inequality, creating not one country and one people but winners and losers through discrepancies in living standards within and between cities and provinces.
- > China's rulers find themselves trapped in a Catch-22, trying to keep social control by denying workers the freedom to organise in independent trade unions, yet fuelling social unrest and disorder through their authoritarian rule and crackdowns on any initiative to show alternative paths to the future.

The first 21 pages of the report present its main findings. These are then elaborated on and documented in the following four parts.

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China's transition from an unproductive rural economy to a manufacturing powerhouse has been dubbed the 'Chinese miracle'. Growth has rocketed, exports have boomed and incomes have escalated - indeed a miracle for some, but less miraculous for others. While China's growth rates have been record high, so has its increase in inequality. While its exports have climbed to the top, its working conditions have raced to the bottom. And whilst foreign investors have lined up at the country's borders, so millions of workers have lined up in the queues of the newly unemployed. China's 'miracle' has come at a high price: exploitation and suppression on the largest scale possible. And it is a price that has been borne by the vast majority of the people it was meant to benefit: the ordinary workers and peasants that make up most of the country's population. To them, it is the miracle that never was.

An Economic Phenomenon...

By most economic indicators, China's development over the last couple of decades has been an outstanding success. Growth has averaged 9.5 percent over the last twenty years and is expected to continue at that pace for some time, and the size of its economy now exceeds that of a number of major European countries. Within five years, it may be exceeded by only three economies in the world. Exports have been the main driver of this development. Thus, in a quarter of a century China has become a major trading nation. Its exports exploded from around US\$ 2 billion in the late 1970s to almost US\$ 600 billion in 2004. They have grown much faster than overall world trade: at its current pace, China could become the largest exporter in the world by the beginning of the next decade. In the realm of foreign direct investment (FDI), China also beats most records. From 1983 to 2002 total accumulative inflows of FDI rose from US\$ 1.8 billion to US\$ 446.3 billion, or from close to zero percent of GDP in the early 1980s to almost five percent of GDP in the late 1990s. Thus by May 2000, 349,537 companies had been set up in China by foreign investors from over 180 different countries.

...but what miracle?

All in all, China has been the author of one of the most sustained and rapid economic transformations in the past 50 years. But China's economic success

is - despite its speed, strength and sustained impact on the rest of the world – not unprecedented. The earlier experiences of Japan and the newly industrialised economies of Asia were similar in terms of their rate of export growth and their increasing share in world exports. In fact, by some indicators, China's experience is less dramatic than that of Japan and South Korea during their period of industrialisation and integration into the global economy. While China's exports on average grew by 11.9 percent annually from 1978 to 2002, Japan's exports grew by 14.2 percent from 1954 to 1981 and South Korea's by 21.5 percent annually from 1960 to 1995. Moreover, despite all the talk of China's influence on the US trade deficit, so far China is not even close to having the same influence on the US through market penetration as Japan had earlier. China presently accounts for 11 percent of US imports, yet Japan's share of these peaked at 22 percent in 1986.

Nevertheless, China's transformation is indeed an economic phenomenon – and one that has had positive consequences. It has delivered higher incomes for some, and a substantial reduction of those living in absolute poverty. National income has been doubling every 8 years and by some accounts, over half of the reduction in absolute poverty in the world between 1980 and 2000 occurred in China. Yet it is noteworthy, that while between 200 and 400 million people in China might have escaped out of poverty at the US\$ 1 a day measure – in itself an achievement – around 250 million of its people, 16.6 percent of its population, still live on less than that amount and close to 700 million of its people, 47 percent of the population, live on less than US\$ 2 a day.

There are certain other central issues where the Chinese economic phenomenon is far from miraculous. Inequality has been rising as steeply as in any other country and China now ranks among the most unequal of nations. The country may have as many newly unemployed former industrial workers, especially older ones, as the rest of the world put together. And in 2004, according to official figures that are usually lower than the reality, industrial accidents killed more than 15,000 people. Moreover, China's export success has been led by industries paying unnaturally low wages to the country's many repressed workers, deprived of any means to bargain for better ones.

And the future does not seem to hold the prospect of better times for the bulk of China's workers, peasants and internal migrants. More than three quarters of rural households, still by far a majority of the population, are expected to lose out from the country's recent accession to the WTO. Up to 300 million new jobs will have to be created in the coming decade to absorb the millions of unemployed, migrants and newcomers to the labour force. Even the most optimistic regard this

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as close to impossible. For the lucky ones who have a job, working conditions and wages will be kept low by such internal pressures combined with falling export prices and a currency that is expected to strengthen further. This will put even more strain on China's workers, who lack an effective trade union that can represent them and achieve improvements on their behalf, and the chance to vote to change their government through the ballot box. You would expect them to ask, “whose miracle”?

WTO – a wrecking ball in China's creative destruction?

China's economic phenomenon has been driven by changes in the country's economic policy that started in the agricultural sector in 1978, and was extended to industry and large parts of the service sector at later stages. Progressively greater rein was given to market forces, and the traditional price regulation was essentially dismantled by 2000. While price controls were abolished, a company law that for the first time permitted private individuals to own corporations was introduced, a number of competition laws were enforced, foreign direct investments were first allowed and then promoted, tariffs reduced and the state export trading monopoly abolished.

When China entered the WTO in 2001, the explosion of ‘made-in-China’ industrial commodities onto the world's markets was already in full swing and the most profound changes in the country were already taking place. There is every indication that China's WTO accession has been a means for fulfilling broader goals: first of all, with the WTO acting as a wrecking ball for the earlier closed economy, to accelerate the process of domestic reform; and secondly, to facilitate the emergence of China as a major trading nation and to avoid the trade tensions associated with the emergence of other large traders in the past. The first goal appears to have been based on a conviction of China's top leaders back in the 1980s that the country's difficult transition to a market economy should not be stopped halfway. Accession to the WTO would allow it to move further ahead and to enforce the remaining necessary but tough reforms.

China's entry into the WTO was the culmination of a fifteen-year process of reforms, a symbolic event and a political peak in two decades of reforms. Its economic transformation and its accession to the WTO should therefore not be viewed independently, though signs of the first can be traced back more than twenty years before the culmination of the latter. The social consequences of China's economic reforms are not a consequence of WTO accession as most of them were manifesting themselves before this, yet indirectly the link is obvious. Though China's reforms were pursued independently of a possible WTO membership, the possibility of entry into this body became a central focal point in the country's transformation towards economic success.

China's 'low road' to global competitiveness

Generally speaking, when countries embark on a route of economic reforms aimed at enhancing competitiveness to create growth and prosperity, they can either take a 'high road' or a 'low road'. Through the 'high road' competitiveness is based on quality in infrastructure, public services, the environment, welfare systems, the workforce, labour markets, technology and innovation, and workers' free trade unions that can represent and promote their views. The 'low road', on the other hand, is based on downsizing the public sector, exploiting the environment, abandoning welfare, pressuring the workforce, creating flexibilities at the price of security, constantly reducing prices, lowering labour costs and suppressing trade unions. The 'high road' adds significant value in every production process, the 'low road' only a minimum of value at each stage of production.

China is mastering the latter, the 'low road'. Its appearance as the world's favourite manufacturer is not because of exquisite quality in its production, but because the country produces cheaply, while offering a relatively stable environment, a fixed currency, and a reliable, docile and capable industrial workforce groomed by government-enforced discipline and lacking effective trade unions. It is taking over the world's export markets, but not making much profit from it. Most of China's imports are materials for further processing or intermediate goods that are brought into the country for finishing by an affiliate of a foreign firm or through subcontracting to local enterprises. The value added within China is often rather modest, consisting mainly of the low wages paid to local workers.

When BYD, the world's leading maker of batteries for mobile phones, was asked to cut prices by companies such as Nokia and Motorola, it stripped robots and other machines out of its manufacturing process and replaced them by an army of Chinese workers. The company used to produce its batteries in highly automated plants but simply realised that it could slash its prices by paying for Chinese salaries rather than American or Japanese machines. Similarly, in Shanghai Volkswagen (VW) still builds cars the way it used to do in Germany in the 1970s, relying mainly on manual labour. And now that retailers and consumers around the globe appreciate 'the China price', no one expects the Chinese to be able to raise their prices. Rather, buyers in both wholesale and retail markets insist on further reductions. As illustrated by Surely Huang, a factory engineer, talking about stereos produced for the US market: *"The profit is really small. We have to constantly cut costs to satisfy Wal-Mart."*

Though primarily it is foreign retailers that demand lower prices, fewer costs and larger output from Chinese producers, who transfer these burdens to their workers, it is the Chinese government that has allowed and facilitated this race to the bottom. It is the government that has put profits, growth and the most simple form of economic development before people, social progress and human dignity. And with that, it is the government that has traded in the interests of the many for the benefit of the few.

The most profound change in the features of China's industry during the reforms has been the restructuring of state owned enterprises and the founding of new privately owned corporations, not least in the country's many new Special Economic Zones, where taxes are low and the protection of workers is lacking. Since 1995, the number of companies under state control has halved from 300,000 to 150,000, shedding a staggering 59 million people, 42.5 percent of those employed in these enterprises, according to new ILO figures. During the same period, employment in the emerging private enterprises increased by only 16 million, thus reducing the number of people employed in the formal economy by a total of 43 million.

The privatisation of China's economy has been associated with an immense scale of corruption and asset stripping by government officials, and thus met resistance from most workers. Many state owned enterprises have been declared bankrupt, sacked their employees, and sold off their assets at rock bottom prices only to re-emerge in private hands, employing workers on inferior contracts with reduced holiday allowances, welfare entitlements and total wages. It is no surprise that many feel as Yong Quan, writing incognito on a

Chinese web forum: *“In essence, the reforms have done little more than transfer fifty years of accumulated national capital and assets to a tiny minority who have ‘gotten rich first’.”* Unfortunately for the workers that have suffered, the country’s official trade union, the ACFTU, has been ineffective to defend their position when state-run factories have closed, or to protect them against the new private employers.

Close to half a million companies have been set up in China by foreign investors since 1980. But only a fraction of them have delivered decent work to their employees with regards to wages, working time, work environment, social security, or health and safety insurance – let alone trade union rights. The vast majority of them, to put it plainly, exploit and abuse their workers on the worst possible scale. Thus, the people who provide everything from t-shirts to DVD players to the world’s consumers often have 60-70 hour working weeks, live in dormitories with 8-16 people in each room, earn less than the minimum wages that go as low as US\$ 44 per month, and have unemployment as the only prospect if they should get injured in the factories, which by and large are very far from fulfilling even minimum safety requirements. And most notably, they do so with the blessings of the Chinese authorities who have denied them any chance of obtaining better conditions through independent trade unions, collective agreements or the freedom to engage in labour disputes, such as strikes, without the fear of being penalised by their employers or the authorities.

No jobs on the world’s factory floor

Perhaps the most counterintuitive fact about China’s economic rise and its emergence as a labour intensive, first-class manufacturer of goods for the whole world is that this, in net terms, has hardly created any new jobs. As in many industrialised countries, though for quite different reasons, growth in China has been relatively jobless. According to estimates from the World Bank, in the 1980s when China’s economic growth was 9.3 percent a year, net employment growth was only around 3 percent per year. And in the 1990s,

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when economic growth was about 10.4 percent annually, net employment growth was as low as 1.1 percent per year. The reason is to be found in the combination of increased productivity and the mass lay-offs in the sector controlled by the state.

The ironic truth is that while public anxiety has been rising in Europe and North America over the millions of jobs lost to China, tens of millions of jobs have disappeared in China itself each year. Thus, between 1996 and 2001, the number of urban and township workers in formal employment fell from 149 million to 108 million, a net reduction of 41 million or 28 percent. And the overall quality of jobs has fallen in the same period too, as the largest growth has been in informal employment and self-employment - a group which climbed by 13.3 million, a 57 percent increase, in the urban areas.

As China's population has increased significantly and large numbers of people have entered the labour market during the last two decades of weak employment creation, the country now has a major unemployment problem. Though the government and its officials keep many statistics on unemployment secret and usually try to downplay its extent, there is a widely shared view by analysts and international institutions that the effective unemployment rate is above 10 percent at national level and up to 12 percent in the urban areas. Thus, a continuously larger number of laid-off workers become permanently unemployed, as their chances of reemployment are reduced due to the country's increasing oversupply of labour. According to a government survey in the first half of 2001, out of 7.69 million laid-off workers, only 0.79 million succeeded in getting a new job, a reemployment rate of just below 10 percent. The situation has not improved since.

All in all, at the same time as the term 'miracle' has been increasingly attributed to the Chinese economy, its average quality of employment has declined, unemployment has emerged as a serious challenge, and labour force participation fell as discouraged job seekers gave up their search for work.

No stability, no security

Until China embarked upon its path of casino capitalism, where 'get rich quick' has become the government's leitmotif, only the lucky few leave with a jackpot and the 'house' plays to win every time, various aspects of living conditions in China were relatively stable. Jobs in the state owned enterprises

(SOEs) were fairly secure. Wages were low, but access to medical care, housing, education, maternity leave, pensions and living allowances in the case of layoffs or disabilities were included in an overall package that was intended to ensure stability in the country's work force. The SOEs had a multifaceted role, which included capital accumulation and social stability as well as provision of employment and welfare. Competition took second place to development. Today, the SOEs that still exist are devoted to the task of capital accumulation in an environment where competitiveness has become the dominant force and profit the overriding motive for economic activity. Thus, workers in the SOEs face a choice between accepting reductions in pay, conditions and welfare or being replaced by migrant workers from the countryside.

While its economy has advanced, China's social system has deteriorated. A general concept of state provision of social security existed before the reforms, but is now being replaced with a 'pay as you earn' system, which transfers the onus from the state to the individual worker. Due to this, many people fall outside its coverage. They have no formal earnings and therefore simply no chance of fitting into any work-based welfare system. Most rural residents, most migrants, and most of the growing number of workers without formal employment and those on short-term contracts belong to this group. Furthermore, those who are 'owed' benefits from the old system face their own problems. The laid-off workers from the SOEs that do not find other work have troubles registering as unemployed and the pensioners struggle to get by, often forced to get informal jobs after their official retirement.

Increasing inequality

China's transformation has not just brought rapid economic growth and increasing international trade, but also a sharply deteriorating income distribution. Some groups have gotten rich, many have stagnated, and others have even become poorer. Thus, income inequality within urban areas, as measured by the 'Gini coefficient', has increased from 0.23 in 1990 to 0.32 in 2001, and risen from 0.31 to 0.36 in rural areas during the same period. Although China's inequality level isn't the worst among developing economies – Brazil's and Malaysia's for example are still higher – its rapid increase is exceptional and quite worrying, since history shows that such gaps do not tend to narrow.

One thing is differences within regions and cities, another is disparities between them. And in China, these are often even more pronounced, as it is

the coastal areas of the country that have emerged as urban economic powerhouses, while the interior regions are still mainly used as farmland and are the source of many job-seeking migrants. Hence, the ratio of urban to rural incomes increased from 2.2 in 1990 to 3.1 in 2002, meaning that rural incomes are but a third of those in the cities. This is an extremely high difference by international standards. Yet if measured by comparison with the richest parts of the country, the difference jumps to tenfold. While GDP per capita in the countryside is estimated to be US\$ 350 a year – well below the rural per capita income of most Latin American countries – it is US\$ 4,500 in Shanghai. The consequences of the rural poverty that these differences reveal are not hard to identify: in 35 poor and rural areas of China recently surveyed for a World Bank project, four out of ten children aged 7 to 15 had received no schooling whatsoever.

The rising inequality in China is not just a problem of social justice, but poses a challenge to overall poverty reduction, to continued economic growth and to the country's stability. Recent history shows that the Chinese provinces that started the reform period with relatively high inequality faced a double handicap: they had lower subsequent growth and the poor shared less in the gains from that growth. Thus, rising inequality may very well put a serious brake on China's pace of poverty reduction and its future growth. Moreover, China is entering a stage of its development where relative poverty will emerge as a more important concern than in the past, as growing inequality increasingly fuels social discontent and unrest.

Worse prospects for the future

True optimists, such as those believing in neo-liberal policies and neoclassical economics, will believe that the future must be better for China's workers and peasants; that the human and social costs of China's transformation are nothing but the traditional, temporary side effects experienced by all economies undergoing structural reform; and that the degrading working conditions, mass unemployment and continued poverty are only features of a transitional period. Unfortunately, they are wrong. There is ample evidence that working conditions in China will be under even greater downward pressure in the near future, that the current employment challenge is just the tip of an iceberg soon to emerge, and that implementation of all WTO obligations will decrease the incomes of the majority of China's population.

Wages and working conditions will, first of all, be under pressure due to external factors. As already mentioned, the prices of the goods that China exports are falling, while the prices of the goods it imports are rising, particularly oil and other raw materials used in production. This means that Chinese workers will have to produce ever more cheaply, in spite of the fact that resource prices are rising. Moreover, the government is constantly being asked to revalue the country's currency, the Yuan, doing so by 2 percent in July 2005 and expected to further revalue it by up to 10 percent over the next couple of years – again, a move that naturally makes Chinese goods more expensive abroad. Increases in productivity may do something to keep prices competitive, but extended overtime, less pay and less of everything considered superfluous, such as safety provisions, insurance and other benefits, will no doubt also be part of the recipe.

And even those workers in sectors with rising productivity that could have expected to benefit from higher wages, will find their wages growing relatively more slowly than in comparable democratic countries, due to the lack of an effective union movement in China that could pressure employers to give the workers a fair share of their contribution to the growing output.

The internal challenges might be of an even larger scale. And ironically, it is the same feature that makes China so fiercely competitive internationally that poses the largest threat to its continuous growth and ambitions of developing sustainably: its large population and abundant work force. While China shifts from an agricultural to an industrial and soon a service-based economy, it is challenged by how to productively employ its labour force of close to 800 million people – in fact 25 percent of the world's total – particularly, how to absorb or reemploy the millions of laid-off workers and rural migrants.

Overall, it is estimated that the country will have to create around 100–300 million new jobs in the coming decade, or as an official of the State Council, China's cabinet recently put it: *"We need to create 20 million new jobs each year"*. Not an easy task, even for China. Though the country has achieved great success in several new industries in the past five years – above all in hi-tech goods and in information and communications technology – and has restruc-

**"IF CHINESE WORKERS HAD THE RIGHT TO SPEAK,
THE WORKERS OF THE WHOLE WORLD WOULD BENEFIT."**

HAN DONG FANG, HUMAN RIGHTS ACTIVIST

tured the economic base of its coastal cities through the special economic zones approach, these new industries' capability to create employment is limited. In the late 1990s employment in the 53 designated high-technology parks amounted to only 2.2 million people, even though several parks had enjoyed rapid and sustained growth with sales rising up to 50 percent each year. Within the next decade, these high technology and advanced manufacturing sectors will not be able to add more than 20 to 30 million new jobs. The consequences? Most probably still greater unemployment and downward spirals in wages and working conditions in the labour intensive industries. As workers are reminded by a sign on the wall in one factory in southern China: *"If you don't work hard today, tomorrow you'll have to try hard to get a new job."*

No trade wonders

The much fought for WTO membership does not seem to change the trends of pressure on workers and raising inequality already identified. Rather, it appears to exacerbate this development. Research undertaken by the World Bank suggests that while almost ninety percent of urban households might gain from WTO accession, over three-quarters of rural households lose, with the very poorest rural households experiencing a sharp reduction in their living standards. This loss for rural households, which still make up two thirds of the Chinese population, is due to a combination of falling rural wages and increases in the prices of the main consumption goods of this group. These developments in the rural areas, mainly because of liberalisation in the agricultural sector, increase the incentives for rural workers to leave the farmlands and look for work in the cities. Thus, if they could, research suggests that 28 million agricultural workers would leave their sector to look for manufacturing work – a change that would put downward pressure on unskilled wages in urban areas, in consequence reducing them by up to 5 percent.

This suggests that China will face a hard time trading itself out of poverty. Indeed, history shows that – in spite of the dramatic changes that have taken place in the country – so far it has not. There was a dramatic decline in absolute poverty (by the Chinese definition) in the first few years of the 1980s, during which the rural poverty rate fell from 76 percent (in 1980) to 23 percent (in 1985), while the late 1980s and the 1990s saw less progress for China's poor. However, the bulk of the trade reforms did not occur in the early 1980s but later, notably with the extension of the special economic zone principle to the whole country in 1986 and then with increasing speed from the

mid-1990s, in the lead up to China's accession to the WTO. The vast majority of China's trade liberalisation occurred after the time of the most rapid poverty reduction and during times of relatively stagnant poverty measures. In fact, statistically, there has been no special correlation between trade and poverty, neither positively or negatively. More plausible candidates for explaining China's success against poverty can be found in the role played by the agrarian reforms starting in the late 1970s, subsequent agricultural growth, reduced taxation of farmers and macroeconomic stability.

The positive impact of WTO accession on poverty in China has yet to be seen, and it could be argued that it has actually stalled the formerly ongoing eradication of extreme poverty: the incidence of extreme poverty in rural China declined from 29.2 percent in 1990 to 13.8 percent in 1996, but then stopped declining. In urban China, it declined from 2.5 percent in 1990 to 0.6 percent in 1996 but then, once again, stopped declining. And in the realm of employment a similar picture appears: employment conditions showed significant improvement in both rural and urban areas from 1990 to 1996 while in the subsequent period from 1996 to 2002, rural employment conditions continued to improve but urban employment conditions worsened substantially.

Trade liberalisation has been no panacea. Therefore, if the Chinese government's strategy for further growth, employment creation and poverty eradication is based only on securing a larger share of global trade, it is doomed to fail.

Preventing political discontent and social unrest through control of the factory floor

It is not always clear what the Chinese government wants, what its fundamental aim over the 25 years of reforms has been, and what its present strategy for the future is. What is very clear though, is that critique of its work and frustration at the consequences is mounting in Chinese society. In the words of an anonymous dissident on the web: *"At no point during this period have we addressed the question of exactly why we started down the reform road or examined who has benefited from the process. Why are we reforming and for whom are we reforming? These are the most urgent questions facing China today."* As such questions are almost impossible to raise in public, and the large majority of Chinese lack the information to do so, protests are mainly local, related to specific grievances such as unpaid wages, factory closures and arbitrary land seizures, as well as poorly organised. Yet when counted togeth-

“AT NO POINT DURING THIS PERIOD HAVE WE ADDRESSED THE QUESTION OF EXACTLY WHY WE STARTED DOWN THE REFORM ROAD OR EXAMINED WHO HAS BENEFITED FROM THE PROCESS. WHY ARE WE REFORMING AND FOR WHOM ARE WE REFORMING. THESE ARE THE MOST URGENT QUESTIONS FACING CHINA TODAY.” YONG QUAN

er, such protests do have a national impact, as they manifest that social tensions in China have risen to record levels: The number of so-called mass incidents, including sit-ins, riots, strikes and demonstrations, reached 74,000 in 2004, an all time high, and involved up to 3.7 million people. By comparison, in 1994 there were 10,000 such incidents with 730,000 people taking part. Luckily for the Beijing government, this brewing social unrest has yet to erupt into a nationwide crisis. Participants in these incidents are still far from forming an antigovernment movement with mass appeal. However, the fear that they might do so is ever present on the government's mind and hence explains a great many of the policies of China's Communist Party. Its leaders know that this trend of protests is an indication of latent, but so far suppressed, challenges to the country's stability and their rule. They therefore do what they can to avoid any form of organisation that could confront their power, most strikingly, an independent labour movement.

The Chinese Communist Party is painstakingly aware that workers, unified at a national scale, have the potential to bring down governments, especially when these are unelected and autocratic – just mention the influence of the Polish trade union Solidarnosc on the changes in that country in the 1980s to high ranking party officials and you will see the instinctive anxiety in their eyes. The rulers have therefore gone to great lengths to prevent workers' protests from spreading beyond their immediate locale and generally avoided violent blanket oppression, so as to hinder provoking sympathy action. But no risks are taken: independent trade unions are not allowed to exist; all attempts at establishing independent workers' organisations are repressed, sometimes violently. Organisers of worker groups or protests are often arrested. Some are sentenced to terms of imprisonment, officially called 'reform through labour', after criminal trials that fall well short of international standards. Others are assigned to terms of 're-education through labour' or 'rehabilitation through labour', an administrative process, which bypasses the few safeguards of the criminal justice system.

And strikingly, any kind of information related to employment and unemployment as well as central labour issues such as disputes, protests and strikes, are state secrets in China. These issues, where information is central to any workers wanting to address their problems at a regional or national scale, are surrounded by the same secrecy as questions of national security. Thus, central statistics related to labour are never released beyond government offices and material that once was public has later been classified as a state secret due to its potential to harm the interests of the state. There are different categories of secrecy. Some information is 'internal', other parts are plain 'secret' and some is even 'highly secret' or 'top secret'. Information on wages policies, corruption in relation to the restructuring of state enterprises, and labour unrest in the form of petitions, strikes and demonstrations is all 'highly secret'.

Under the present legal order, China's workers only have the party-controlled, monopoly union organisation, the All China Federation of Trade Unions, to resort to if wanting to improve their situation. Traditionally the main role of the ACFTU has always been to assist the government in the primary task of ensuring social and political stability. Yet at the same time it is now under pressure now to respond to the obvious problems and inequalities emerging in the new economy, partly to end the industrial unrest that is growing in China, particularly when state enterprises close down. Caught at one level between these contradictory aspirations, in practice it is virtually always seen taking the side of the employers.

Most generally, the ACFTU fails to prevent private corporations, national as well as foreign, from denying decent work to China's workers. Hence, if workers could organise as they pleased, it is more than probable that they would have higher wages, do fewer hours, be prone to have less injuries, achieve better job security and perform their tasks more productively. But as their representatives' voices are suppressed and their bargaining power pacified, employers are given *carte blanche* to exploit and abuse them as they please. The relationship between the misuse of China's workers on the factory floor and the government's effort to keep power at any cost is therefore as clear as it is obvious to the ordinary Chinese that China's miracle is a mirage.

A Great Leap Forward?

The above critique of China's economic transformation should not be misconstrued as some romantic dream of returning to a closed economy. While twenty five years of reform have certainly left millions of Chinese workers jobless and poor, the situation in 1978 was perhaps even worse. On the eve of the economic reforms, living standards were falling, urban unemployment at that time too was unacceptably high, and many returnees from the countryside were living by theft, begging and prostitution.

The Chinese economy *had* to develop, like any economy, and *had* to undergo substantial changes. It has done so, and fortunately, the country has experienced much economic progress. Yet, on its way forward, a detour has been taken. Its people have been denied basic freedoms while policies that benefit the few, rather than the many, have been prioritised. Chinese workers are denied the freedom to organise and the right to strike. Domestic and international capital has been given leeway to exploit workers who have no choice but to comply. The socialist market economy has brought swift and massive discrepancies in wealth. And those who have dared speak up for themselves and their colleagues have been thrown into jail.

The better working conditions, fairer remuneration, and higher standards that are demanded by China's workers, but so far denied them, need not be a burden to China's growth. On the contrary, they would form the foundation for the Chinese economy to develop qualitatively, to become more sustainable, for its population to gain its rightful share of the country's growth, and to bring more Chinese out of poverty, than has already happened during the country's industrialisation.

Moreover, core labour standards are not only both indicators of and ways to achieve social progress, but rights that are connected to human freedom and dignity. Thus, the denial of freedom of association and workers' rights is a violation of the basic notions of democracy. China might be an integrated part of the world economy and of international political relations but it is still far from becoming part of the world of democratic nation states. As China becomes fur-

ther integrated into global trade, investment and institutions, increasing pressure must be put on the country to respect basic human, social and political rights. As long as it does not, it will remain far from miraculous for its people.

Growing people in the People's Republic

China's rapid economic transformation, sustained growth and soaring exports have made the country a major player in the global economy and world politics.

For the last two decades, growth has averaged 9.5 percent, and it is expected to continue at that pace for some time. With a GDP of US\$ 1.65 trillion in 2004, the size of its economy exceeds that of a number of major European countries and within five years, it may be exceeded by only three other world economies. Moreover, with a contribution to global GDP since 2000 almost twice as big as the next three largest emerging economies, India, Brazil and Russia, combined, it is already way ahead of its closest competitors.

The country's exports have been one of the main drivers of this development. In only a quarter of a century, China has become a major trading nation, with exports rising from US\$ 2 billion in the late 1970s to almost US\$ 600 billion in 2004. Continuing at the present pace, China would probably be the largest exporter in the world by the beginning of the next decade. Interestingly though, the change in its exports has not only been quantitative but also qualitative. In the early 1990s, textiles and light manufacturing made up more than 40 percent of the export portfolio, the same figure which today represents exports of heavier machinery, transport and electronics, up from 17 percent in 1993. China's imports have matured at similar speed. This makes the country a highly open economy. Indeed, the sum of its exports and imports have risen to two thirds of GDP today – an uncharacteristic feature for countries of continental size and large populations. India, Brazil, Japan and the United States in comparison do not even reach a ratio of one third.

China is beating most records in the business of attracting foreign direct investment (FDI) too. Since 1992, the financial flows connected with FDI have reached US\$ 40 billion annually, going from zero percent of GDP in the early 1980s to almost five percent of GDP in the late 1990s. Initially, most FDI was of the 'greenfield' and 'brownfield' variety, which covers new physical investments and renovation investments in joint-ventures, rather than 'mergers and acquisitions' which have only been allowed for foreign firms in recent years. The economic benefits of the former category are generally larger for the host country, and by 2000 more than 300,000 companies had been set up in China through foreign capital. All these flows translate into a very physical impact: last year, Shanghai overtook Rotterdam as the busiest port in the world, Beijing is estimated to be the busiest construction zone on the planet,

and, according to the Asian Development Bank, China used 40 percent of the world's steel, 30 percent of its coal, and 25 percent of its aluminium and copper in 2004.

This rise is often viewed with some concern from abroad. China is portrayed as the world's factory floor and expected to continue to do well in international trade in the future. It holds strong cards with which it can continue to trump its contestants, such as the ability to supply labour intensive goods for a long time to come thanks to a vast reserve army of underemployed labourers in its rural areas. Furthermore, it also attracts foreign firms whose intention is to occupy a portion of the rapidly growing domestic market, while the country's macro-economic governance has been receiving favourable marks from international organisations in the recent years.

But in the midst of its success the country is also facing serious challenges and major problems. Challenges and problems, in fact, that are closely interrelated to the country's rise and economic triumphs. And the list is long: unemployment in the cities, a weakening social system, environmental degradation, increasing gaps between incomes in the coastal areas and the heartlands, stagnating poverty eradication, low employment creation and the prospect of working conditions under pressure for several decades to come.

Leaving the problems and challenges aside for a moment, there is a dual, yet interlinked, explanation for China's rise as an economic superpower: its internal economic transformation and the inclusion of its massive, cheap but skilled, workforce in the world's production capacity. China's transformation through an ambitious reform programme greatly increased the efficiency of use of the country's vast resources, not least in the agricultural sector. And this brought an end to China's strategy of self-reliance. It opened up China to the world and the world to China. Thus, the core of China's influence on the rest of the world is its combination of a vast supply of low-priced labour with an unusually open economy in terms of trade and foreign direct investment. In economic terms, the country's impact on the world economy is that of a 'positive supply-side shock', with China together with India and the former Soviet Union in effect doubling the global labour force in just a couple of decades. So far the country's economic success is captured in the old Chinese saying: *If you want one year of prosperity, grow grain. If you want ten years of prosperity, grow trees. If you want 100 years of prosperity, grow people.*

Reforming through and towards the WTO

China embarked on a non-stop route of economic reforms in 1978. These took off in the agricultural sector and were from then on gradually extended to industry and large parts of the service sector. Greater rein was given to market forces and traditional price regulation was finally abandoned at the beginning of the new century. During the reform years, a company law was introduced that for the first time allowed private individuals to own enterprises, a number of competition laws were enforced, foreign direct investments were permitted, tariffs were reduced and the state's monopoly on export trading abolished.

Thus, when China entered the WTO in 2001, the most profound changes in its economic transformation had already taken place. In itself, membership of the WTO is therefore not imposing larger changes on China than many parts of its reform programmes had already done. Yet the course that was entered when the country's compass was set on WTO accession might have been the strongest force in China's still ongoing economic transformation.

Rather than just a goal by itself, membership of the WTO has been a means to fulfilling a broader goal: the transformation of China's economy into a modern and successful process of capital accumulation and the country into a manufacturing powerhouse. Thus, within the framework of the global market system, the Chinese government is overseeing a process of reform that – from the point of view of the ruling party – failed in the former USSR. It has therefore acknowledged that it has limited room to manoeuvre and will constantly face new challenges to its endeavours.

Hence, as early as 1986, China requested entry to the WTO's predecessor, the General Agreement on Tariffs and Trade. Against early expectations, it took fifteen more years before membership was secured, following the pace-setting agreements with the United States in 1999 and the EU in 2000. In the end, the country agreed on almost all demands made by the main WTO members, although it had to accept additional commitments that were not usually imposed on developing countries. Indeed, several commentators wondered why the country, after already having scored impressive gains in international trade, accepted such additional terms. And why it so wholeheartedly accepted the canons of the open market economy and its implications, including fiercer international competition for its own firms, with a strong prospect of hurting the country at home.

The unavoidable adjustment costs notwithstanding, WTO membership was viewed as an efficient lever to sustain the rapid transformation and growth performance of the Chinese economy, which the country's government had and still has several motives to find indispensable. At the end of the day when WTO membership was secured, rather than changing the country overnight, accession primarily confirmed a range of changes that had already taken place. Within industry, for example, tariffs had already fallen from 46.5 percent in 1992 to 25 percent in 1995, and further fell to around 13 percent in 2001. And non-tariff barriers had also already been slashed significantly. The monopoly position of the 'foreign trade corporations' had eroded progressively, as trading rights were granted to lower echelons of government and to large individual enterprises. Foreign investors were already entitled to conduct exports on their own, and the exchange regime had been reformed at the time of accession.

LEGAL CONSEQUENCES OF CHINA'S WTO MEMBERSHIP

- > Eliminating import quotas by 2006.
- > Eliminating import tariffs on computers, semiconductors, and related products by 2005.
- > Reducing the import tariff on agricultural products from 22% to 17.5%.
- > Reducing the import tariff on industrial products from 24% to 9.4%.
- > Reducing the import tariff on vehicles from 100% to 25% by 2006.
- > Reducing the import tariff on vehicle parts by 10%.
- > Allowing up to 50% foreign ownership of telecommunications and insurance companies.
- > Allowing importers to own domestic distribution networks.
- > Allowing full market access for foreign banks within five years of accession.

Profit over people

The most profound change in China's economic transformation has been the transfer of production from the public to the private sphere, in the form of extensive privatisation of state owned enterprises (SOEs) and the founding of new privately owned corporations, particularly in the country's many new Special Economic Zones. Though great attention has been given to the many new corporations set up with foreign capital, the alteration of state controlled

corporations might have had an even larger impact on China and its workers. The restructuring of the state owned enterprises has gone through a number of stages, designed to avoid the 'big bang' privatisation policy that was inflicted on workers in the former Soviet Union following its collapse. The main stages have been the introduction of management autonomy in the mid-1980s, employment contracts as opposed to permanent 'iron rice bowl' employment, subcontracting, the introduction of shareholding, mergers, sell-offs and bankruptcies. Thus, from the early 1990s state owned enterprises en masse have been turned into corporations with a legal business structure, and many of them have been listed on the stock exchanges that were created at the same time. Particularly, from 1998 a policy of letting small enterprises go – closing them down or selling them off – and restructuring large companies has been pursued, with the number of state controlled industrial enterprises falling by over a half in the following five years.

This wave of restructuring, however, has brought few, if any, sustainable benefits to China's workers. At the national level it went against their interests in defending jobs and limiting unemployment, and at the enterprise level it has brought less job security, fewer benefits and worsening working conditions. Thus, though wages were low, jobs in the state owned enterprises were relatively secure, and access to medical care, housing and education was included in an overall package. While the former state owned enterprises performed multiple tasks, including social stability and the provision of employment and welfare, the ones that still exist today are devoted to the task of capital accumulation in an environment where competitiveness has become the overriding imperative and profit the dominant rationale of economic activity.

The fast restructuring and quasi-privatisation in China has been accompanied by large scale corruption, which has been a central reason for many workers' opposition to it. Bosses and corrupt local government officials have been able to ignore many of the regulations that were supposed to govern the process of restructuring, with widespread, semi-criminal pillage of state assets as the result.

Often, corruption has taken the following form: top managers would deliberately run down the operations of a state company over a period of two to five years. The company would then be declared bankrupt. Employees were sacked via various means and the assets sold off at giveaway prices. The company would then re-emerge in private hands, employing workers on mediocre contracts that reduced the overall wage bills. Due to a lack of

“IT WILL BE IMPOSSIBLE TO REACH THE LIVING STANDARDS OF THE US OR EUROPE WITHIN 50 YEARS.” WANG HUIJUN, DEPUTY DIRECTOR OF CHINA’S FOREIGN MINISTRY

transparency, workers’ resistance to the process would usually start at the comparatively late stage of asset-stripping. Resistance would come in the form of major street demonstrations. In most cases, however, and due to restrictions on the organisation of labour, resistance would come too late and workers would find themselves struggling to get welfare payments and to obtain their wage arrears.

In order to attract foreign investment and much needed injections of cash, SOEs are shedding workers at a remarkable rate – a rate which the private sector creation of new jobs has yet to catch up with. Thus, since 1995, 59 million people, 42.5 percent of those employed in the state owned enterprises, have been fired from these enterprises, according to new ILO figures. These newly unemployed find themselves out of work, while watching new private investors transform their former workplaces into profitable businesses, employing only cheap migrant workers on short term contracts. One former furnace factory technician’s story is typical. He once made 1,200 Yuan a month (US\$ 150), but is now repairing shoes on the street. The best job offer he has had since he was laid off came from a private employer, who offered 300 Yuan and no benefitsⁱ.

Sweat-shopping its way to success

China’s emergence as the world’s factory floor is not only because it is cheap, but because it offers other bonuses that investors flock around like predators eyeing their prey: a relatively stable environment, a set currency, a regulatory vacuum, and a docile and disciplined workforce. In the words of one of the investors taking advantage of this: *“There might be places in other parts of the world where you can buy cheaper, but can you get the product on the ship? If we have to look at a country that’s not politically stable, you might not get your order on time. If you deal in a country where the currency fluctuates, every day there is a lot of risk. China happens to have the right mix.”*ⁱⁱ

However, China’s main comparative advantage is its cheap workers. Low pay, excessive hours, poor working conditions and minimal other costs have, thus,

been China's road to success. It is a road that China is mastering, foreign enterprises are more than appreciating, and that the country's authorities seem set to continue down. But it is a 'low road'. One based on eliminating and minimising obstacles and hindrances rather than constructively building competences and opportunities. One of downsizing the public sector, exploiting the environment, abandoning welfare, pressuring the workforce, creating flexibilities at the price of security, constantly reducing prices and lowering labour costs. One which adds only a minimum of value at each stage of production, and relies mainly on the low wages paid to local workers.

Productivity in the country is still very low. In fact, in the booming manufacturing industry, measured by GDP per person employed in the sector, China is up to 30 times less productive than countries like the US and Japan. And Germany and Finland are 20 times more productive than China. Even in comparison with countries that the country is defeating in the export markets, China's productivity per employee is low: Brazil is 6.71 times as productive, Malaysia 4.58 times and Thailand 2.87 times.ⁱⁱⁱ The main reason for this low productivity is the lack of technologies in China's manufacturing industry. But missing educational and skill-enhancing investment in the labour force is also a reason. And more interestingly, international experience shows that the short term gains that sweatshop conditions might give to producers are more than lost in comparison with the long term productivity gains that having a healthy, motivated and increasingly competent staff give.

In spite of its low productivity, China has seen an explosion in private companies and corporations since the inception of its economic transformation. Some have been set up by Chinese, others by foreign investors. But only a fraction of them have delivered decent work enabling a decent life for their employees. The majority of them exploit and abuse their workers on

“IT'S BETTER THAN NOTHING. LABOUR PROTECTIONS, WORKING CONDITIONS AND WAGES ARE RELATED TO A COUNTRY'S LEVEL OF ECONOMIC DEVELOPMENT. OF COURSE, WE WANT BETTER LABOUR PROTECTIONS, BUT WE CAN'T AFFORD IT. WE NEED THE JOBS. WE NEED TO GUARANTEE PEOPLE CAN EAT.” KONG XIANGHONH, HIGH LEVEL UNION OFFICIAL IN GUANGDONG, THE BASE OF CHINA'S 'ECONOMIC MIRACLE', WHERE GROWTH RATES HAVE BEEN ABOVE 10 PERCENT FOR THE LAST DECADES AND INCOME INEQUALITY IS AMONG THE HIGHEST IN THE WORLD.

an unimaginable scale. Thus, the people who produce the products that are flooding most of the world have 60-70 hour working weeks, live in dormitories with 8-16 people in each room, earn less than the minimum wages which go as low as US\$ 44, and their only prospect if they should get injured at work is unemployment.

HOW MUCH DOES IT COST TO MAKE A \$100 PAIR OF SHOES? 60 CENTS!

Research shows that Chinese workers get less than 1% of the retail price for their work on a pair of shoes. The research was carried out at a Kingmaker Footwear factory in the Changle industrial zone in the Guangdong Province. It employs a total of 4,700 employees, and primarily manufactures footwear products for the fashionable shoe brand Timberland.

During regular times, which in China is in slow seasons when no extra overtime hours are needed, the factory's workers have a working week of 60 hours. Extra overtime can amount to 80 or 100 hours per month. And when there is an additional job request by a factory client, workers sometimes have to work during their lunch time or start work earlier than the standard 7 am and finish after 10 pm, in order to complete the work.

Regular production workers' wages consist of a monthly basic wage, which is 450 Yuan (about 55 \$ US), plus a piece rate. The workers, however, do not know how the piece rate is calculated and do not receive any information on the composition of their wage. A representative wage slip from September 2004, where the worker had had 51 overtime hours during normal work days and 24 hours during his rest days, stated the following: basic wage 450 Yuan, total wage 785 Yuan, deductions for food and dormitory 196 Yuan. Thus, after finishing the fixed production quota and working 76 overtime hours in that particular month, the worker received 589 Yuan (73 \$ US). His wages in October were similar: 590 Yuan paid for a month with a total of 78 overtime hours worked.

Even though the period when the report was compiled, winter 2004, was considered a slow season, the volume of production was still very large: around 50,000 to 60,000 pairs of shoes per month. There are three major steps in producing shoes: cutting, stitching, and moulding. Calculations shows that the labour costs of producing these shoes were almost insignificant compared to their retail price. In the cutting section they were 1.2 to 1.4 Yuan per pair (about 15 to 17 cents, \$US), in the stitching section, 1.8 Yuan per pair (about 22 cents, \$US), and in the moulding section, 1.2 to 1.5 Yuan per pair (about 15 to 18 cents, \$US). In manufacturing one pair of Timberlands that are sold for more than 100 \$ US, workers from the three processes receive less than 5 Yuan, which is equivalent to 60 US cents.^{iv}

Indeed, going from public to private has not brought much by way of benefits to China's workers. According to a survey conducted by a group of party and government agencies, wage rates in the private sector are lower than those in state owned enterprises. The survey which was based on full year figures for 2003 showed that the average annual salary, including bonuses and dividends, of a worker in a privately held company was 8,033 Yuan, while an employee in a state enterprise received 14,577 Yuan a year and a worker in a collectively owned enterprise earned 8,678 Yuan. The same survey also revealed that a private entrepreneur's average annual income was 202,000 Yuan, while the median was 60,000 Yuan.^v

Moreover, it showed that only 33.4 percent of private enterprises provided their staff with medical insurance, only 8.7 percent offered pension plans and just 16.6 percent had unemployment insurance. Unsurprisingly, the insured staff members were mostly those in senior management positions or high level technical staff. Most of the rank and file generally did not receive any of these benefits, the survey showed. All in all, only 14.5 percent of the workers interviewed were covered by medical insurance, while only 22.7 percent and 6 percent of the workers respectively had pension and unemployment insurance.^{vi}

TOYS – NO PLAY, NO FUN FOR CHINA'S WORKERS

Cheap, plastic toys, the kind found in stores, fast food restaurants, day-care centres, cereal boxes and homes, almost all come from China. The Chinese toy industry, the largest in the world, generates billions of dollars in export profits and employs millions of people in thousands of factories. But most of these toy factories are far from fun for their workers. Instead they are subjected to excessive work hours, dangerous equipment and chemicals, cramped employee dormitories, abusive managers, crooked hiring practices, and pay below China's minimum wage.

China Labor Watch, a labour rights group, released a report in September 2005 that shows a set of newly adopted corporate 'codes of conduct' have not changed the situation for China's toy workers. Abusive conditions persist, undermining workers' standard of living and hindering the development of the rule of law in China.

Among the report's findings are work schedules that surpass the legal limit by almost 100%, pay rates as low as 59 percent of the local minimum wage, unsanitary cafeterias, dorm rooms housing 22 people each, and a basic disrespect for Chinese law. Out of the eleven sites investigated, only one abided by the work time and pay regulations set out in the China Labour Law.

Corporations often try to avoid responsibility for such gross infractions by pointing out that factories serve several different clients at the same time. One factory manufactures

for four clients: McDonald's, KFC, Hasbro and Mattel. If laws are broken, each corporation claims that though it would like to ensure compliance, it cannot control the work orders of the other corporations. Thus, the corporations' new codes of conduct, which stipulate that local laws should be abided to, are only in effect when a factory has no other clients than the corporation in question. This, however, never happens, and the big multinationals can wash their hands of any responsibility by claiming they have no control over others' work.^{vii}

Moreover, working in the many old and new factories in China poses a serious threat to health, wellbeing and safety. Statistics from the Chinese Centre for Disease Control and Prevention show that 83 percent of township enterprises have work environments with varying degrees of occupational hazards, and that about 34 percent of the workers in these enterprises are affected by harmful levels of dust and toxic substances. As a result, about 15.78 percent of workers in township enterprises develop or are suspected of developing various occupational illnesses. About 37.2 percent of the foreign-invested factories were shown to have hazardous conditions with 34.7 percent of workers employed in these plants in danger of developing occupational illnesses.

Once again, it is the workers who work the most, are paid the least and have the weakest insurance that are most vulnerable at work. Thus, there is a clear correlation between being economically exploited and being at risk of losing a limb. And contrary to widespread common belief, no evidence suggests that work injuries are less frequent in the factories that are foreign owned or produce for exports. Moreover, the so far limited regulatory efforts to avoid accidents give little hope for better times as they are easy to manipulate. *"The inspection system is not effective. The factories are usually notified in advance, and they often prepare by cleaning up, creating fake time sheets and briefing workers on what to say."*^{viii}

China's workers should in theory, be able to avoid accidents only by demanding that their employers follow the law. The law in itself is not that bad – but the implementation of it surely is. Hence, it does not appear that the right to 'stoppages' over health and safety issues is very often respected. Rather, the numerous examples of employees being forced to continue working in unsafe conditions show that workers in practice have little confidence to use their new found rights to 'work-stoppages' under the Labour Law, the Trade Union Law and the Occupational Safety and Health Law.

INJURED BY WORK, WORK AND EVEN MORE WORK

A new study, released in September 2005, shows a clear relationship between excessive work loads and injuries at work.

Interviewing 177 workers suffering from work related injuries in fourteen hospitals in the Dongguan and Shenzhen metropolitan areas, China Labor Watch unsurprisingly found that it is the workers who spend most time at the assembly-line, receive the lowest wages, and in general have the least benefits and weakest insurance, who get most injured at work.

Ninety-five percent of all injuries were to victims' hands or arms, with severity ranging from cuts and burns to severe nerve damage, permanent paralysis and the loss of entire digits and limbs. The most common injuries reported were broken or severed fingers on the dominant hand. Most workers cited industrial factors as the causes of their injuries: "machine malfunction" accounted for a third of all responses, distantly followed by "lack of training." Human factors – carelessness, fatigue and overwork – accounted for another third of injuries. A third of workers could not account for the causes of their injuries.

Depending on the injury, workers stayed in the hospital on average two to four weeks. The more serious injuries, however, often required hospital stays of two or three months, with one seriously injured worker requiring 182 days of rehabilitation for a head injury.

Workers' incomes (including overtime) on average were 804 Yuan (US\$ 99) per month or 9,648 Yuan (US\$ 1188) per year, far below the average salary rate of Y25,500 (US\$ 3144) per year reported by the Shenzhen Bureau of Labour and Social Security. Sixteen percent of workers polled received less than the new Dongguan minimum wage of Y574 (US\$ 71) per month, which came into effect this January.

Only half of the workers surveyed reported any work-injury insurance. This work-injury insurance would normally cover industrial accidents. However, employers often refuse to provide necessary documentation for filing claims or dispute that injuries were work-related. Consequently, even if a worker is insured, compensation is not assured.

On average, injured workers worked 11-hour days, seven days a week. Thus, only 14% of workers interviewed reported working the legal daily maximum of hours, and only thirteen workers out of all 177 reported working the legal weekly maximum for overtime. The data strongly suggests a direct relationship between overwork or fatigue and work injuries: those who worked 12 hours a day suffered the most serious and by far the greatest number of injuries, while those who worked less than 8 hours per day suffered both the fewest and least serious injuries.

At the time of the study, only one of the 177 workers interviewed had received any compensation for their injuries. The great majority of the rest either did not know what they would do, or said they would try and claim compensation against their employers. Many of the least seriously injured said they would return to work in their factories if allowed. However, due to local hiring practices towards the disabled, it is unlikely they will be afforded the opportunity.^{ix}

“THE INSPECTION SYSTEM IS NOT EFFECTIVE. THE FACTORIES ARE USUALLY NOTIFIED IN ADVANCE, AND THEY OFTEN PREPARE BY CLEANING UP, CREATING FAKE TIME SHEETS AND BRIEFING WORKERS ON WHAT TO SAY.” LI

QIANG, A LABOUR ORGANISER AND FORMER FACTORY WORKER.

In general, there is a lack of consistent and regular monitoring of standards throughout China due to insufficient financial and personnel resources. Both collusion at the local level and widespread corruption are exacerbating the problem. Many localities turn a blind eye to problems or are part of the management or ownership of the enterprise in question. A case in point is the recent Daxing mine disaster in Xingning city, in the southern province of Guangdong. The mine had been operating illegally when it flooded on 7 August 2005 killing some 123 miners. It was later discovered that several shareholders were also local officials, and that the owners unsuccessfully spent over 300 million Yuan in covering up the disaster after management had forced the miners to carry on working at night when the pit was closed down on safety grounds.

Mines make up the majority of the workplaces that experience industrial accidents with death as the consequence. According to 2004 government statistics, 6,027 miners died in 3,639 coal mine accidents. These figures represent 80 percent of all mine accidents worldwide during that time. In the first half of 2005, mine accidents killing more than 30 people had doubled over the same period in 2004 - from January to July 2005 there were six such disasters killing 485 workers, compared to three similar cases in 2004 killing 106 workers.

Overall, preliminary figures on safety in the work place in 2004 reveal that there were 9,864 industrial accidents in privately-owned mines and factories in which 11,278 workers were killed. These figures represented 67% and 68% of all accidents and fatalities nationwide, which is a significant increase on 2003 figures.

A JOB TO DIE FOR

A woman died of exhaustion after working a 24-hour shift at a Chinese handicraft factory, following weeks of 15-hour days. On 3rd November 2005, the 30-year old migrant worker, He Chunmei, fell into a coma and died after working for 24 hours at the Guangzhou Huaxin Handicraft Factory in the southern Guangdong province, the

China Daily reported. A co-worker said factory employees had been ordered to work 15 hours a day since 24th October, to complete orders ahead of a planned move to a new location.

In a separate incident, six workers died on 9th November 2005 in a fire in an unlicensed shoe factory in Wenzhou in the Zhejiang province, the Xinhua news agency reported. Local fire fighters said the blaze may have been caused by flammable gas from combustible shoemaking materials and poor ventilation in the workshop. The report said illegal workshops often kept windows and doors shut to avoid detection.^x

Trading off China's workers for foreign investments

In addition to the problems encountered in the newly privatised sector, there has been growing concern over the lack of oversight and employment regulation in the businesses set up with foreign direct investment (FDI). These include poor working conditions, long hours and low wages. Many critics argue that FDI is being encouraged at the expense of Chinese workers. In fact, much FDI actually consists of taking over domestically-run already established responsibilities, buying existing assets and SOEs, instead of just the creation of wholly new enterprises and jobs.

The enforcement of legislation governing wages, working hours, contracts and requirements concerning occupational health and safety is often ignored in China, but the situation is particularly bad in the private sector and even more so in the Special Economic Zones set up with FDI. There are an increasing number of claims that local authorities are offering incentives in the form of reduction of the necessary benefits, overtime payments and other related requirements usually called for by domestic laws, thus encouraging sweatshops, low wages and the persistence of exploitative labour as part of the attraction of investing in China. Thus, while FDI has created new jobs, much of the FDI the country has attracted is motivated by constantly cutting cost-margins and encourages the creation of labour-intensive low-paid jobs. The majority of investors indeed not only favour China because of its market potential but also for its combination of low wages, a docile workforce, a stable political situation and government incentives as opposed to the higher social standards and educated workforce favoured in some other developing countries.

It cannot be denied that China has an abundant supply of cheap labour, but government policies that encourage the qualitative development of this workforce – in terms of wages, benefits, skills, training and their educational

level – have yet to be seen. While China claims it wants to attract investment which encourages the growth of a skilled workforce and its tertiary sector, the actual reality of its policies on the ground reveals a very different picture.

All in all, when talk turns to the things that could improve the everyday life of China's workers, the country's miracle can be quite hard to spot: *"It's better than nothing. Labour protections, working conditions and wages are related to a country's level of economic development. Of course, we want better labour protections, but we can't afford it. We need the jobs. We need to guarantee people can eat."*^{xi}

BETTER WORKING CONDITIONS WITHIN SIGHT IN GUANGDONG? IF THE MARKET SO DESIRES

China's capitalist adventure was made possible by cheap labour, and it seems that the present situation where workers are exploited, suppressed and deprived of basic rights will continue for some time. There are still no signs, at least, that the Chinese authorities will ensure a change. Instead they choose to rely on 'market forces'.

An unprecedented influx of 30 million migrant workers has fuelled the engine of what might be China's most prosperous region, Guangdong. Through the last decades they turned Pearl River Delta into an export-oriented manufacturing hub. Yet, as the government tries to maintain the image of an investor's paradise based on low production costs, the workers clamour for an end to the sweatshop conditions at many factories, including low pay, seven-day workweeks, 15-hour working days, mandatory overtime, a poor working environment and coercive factory regulations.

Recent riots at a shoe factory and a spate of other smaller workers' strikes and walkouts in the region reflect the growing sense of labour strife. *"There is not a factory in Dongguan that abides by the Labour Law. I would say 50 to 60 percent of the factories here make you work seven days a week,"* said a worker named Wu to the Associated Press.

Wang Guanyu, director of the Guangdong Labour and Employment Service and Administrative Centre, further explained that the government's hands are too full trying to administer the migrant rush into Guangdong – with numbers jumping from 5 million registered workers in 1995 to 10 million in 2001 and nearly 20 million last year – to concentrate solely on labour issues.

Confronted with the degrading working conditions that are the reality of most workers the official said, *"Generally speaking, we want to raise the quality and effectiveness of our labour force and this will mean higher wages and better benefits, but this is a process that will take time. Right now we are hoping to allow the market to work by itself. If factories want a stable work force and don't want to see their trained workers leaving for other factories, then they are going to have to pay them better and give them better benefits."*

To be sure, it 'will take time' for better work conditions to come around by themselves. 75 percent of migrant workers in Guangdong make less than 1,000 Yuan a month, with most of the rest earning less. In spite of regulations that call on factories to give all workers retirement insurance, only half of the migrant workers have any. As long as the Chinese government does not do more to change this, it is hard to believe that better working conditions will come around at all.^{xii}

Standing up for your rights? Not in this country

“Investors are always looking for cheaper labour. In China they find workers who are stripped of all dignity, as they have no bargaining power. That's what makes the labour so cheap. If the workers were able to negotiate with the investors, they could obtain a decent level of pay. It would benefit the whole world, as China's accession to the WTO has had a negative impact on the workers of many other countries, now confronted with competition from a massive cheap labour force that is deprived of any bargaining power.”^{xiii}

Throughout history, workers have organised to get a bigger slice of the pie and to obtain better working conditions. And they have done so successfully in many places, getting higher wages, fewer hours, more safety, holidays, retraining, unemployment insurance and other benefits progressively. Their strength in this fight has been their unity. They have stood together, made the same demands and collectively argued their case. Whether industrial cooperation or confrontation has been the means, their numbers and their organisation has given them their might.

In China too, workers would be able to improve the sweatshop conditions they currently face if they had the chance to organise, bargain and dispute as they would like. But they do not. They are deprived of any opportunity to improve their conditions and the legal means they have to stand up for their rights have no effect in practice. Collective contracts do exist in the country but they are never reached by collective bargaining or other representative channels. Labour disputes also happen frequently but are most often reactive and unorganised, only have limited impacts and are suppressed by any authorities that have a chance to do so.

No independent trade unions are allowed to exist and all attempts at establishing independent workers' organisations are repressed – often violently. Organisers of

protests, disputes or worker groups are regularly arrested or harassed in other ways. Some are given prison sentences, officially called 'reform through labour', though their criminal trials fall well short of international standards. Others again, can be assigned to terms of 're-education through labour' or 'rehabilitation through labour', a mostly administrative process that even bypasses the few safeguards of the criminal justice system. The result of such repressive measures is that examples of independent unions are rare and short lived. Organisers of collective actions operate at great risk. The fear of detention also makes negotiations between workers' representatives, the authorities and employers extremely difficult. However, over the last few years, there has been a marked trend of labour organisers being ready to take this risk and, accordingly, a rise in the collective actions by workers.

A TRADE UNION MONOPOLY AND NO REAL RIGHTS: CHINA'S LAW AND THE WORKERS

China's Trade Union Law was adopted in 1950. It was amended in 1992 and again in October 2001. Workers are not free to form or join the trade unions of their choice. Only one workers organisation is recognised by law, the All China Federation of Trade Unions (ACFTU).

According to the revised version of the law, *"The ACFTU and all organisations under it represent the interests of the workers and safeguard their legitimate rights"*. Trade unions must also *"observe and safeguard the Constitution (...), take economic development as the central task, uphold the socialist road, the people's democratic dictatorship, leadership by the Communist Party of China, and Marxist-Leninism, Mao Zedong Thought and Deng Xiaoping Theory (...) and conduct their work independently in accordance with the Constitution of trade unions."*

Among their basic duties and functions, trade unions shall *"coordinate labour relations through consultation", "mobilise workers to strive to fulfil their tasks in production" and "educate them in the ideological, ethical, professional, scientific, cultural and other areas, as well as in self-discipline and moral integrity"*.

There is currently no law governing collective bargaining procedures, only regulations on collective contracts. They state that a collective contract is legally binding if it is established in line with the regulations.

The right to strike was removed from China's Constitution in 1982 on the grounds that the political system in place had *"eradicated problems between the proletariat and enterprise owners."* Despite expectations that the revised Trade Union Law would include the right to strike, it did not.

China has not ratified any of the two fundamental ILO Conventions on freedom of association, the right to organise and to bargain collectively (ILO Conventions No. 87 and No. 98).

“INVESTORS ARE ALWAYS LOOKING FOR CHEAPER LABOUR. IN CHINA THEY FIND WORKERS WHO ARE STRIPPED OF ALL DIGNITY, AS THEY HAVE NO BARGAINING POWER. THAT'S WHAT MAKES THE LABOUR SO CHEAP. IF THE WORKERS WERE ABLE TO NEGOTIATE WITH THE INVESTORS, THEY COULD OBTAIN A DECENT LEVEL OF PAY. IT WOULD BENEFIT THE WHOLE WORLD, AS CHINA'S ACCESSION TO THE WTO HAS HAD A NEGATIVE IMPACT ON THE WORKERS OF MANY OTHER COUNTRIES, NOW CONFRONTED WITH COMPETITION FROM A MASSIVE CHEAP LABOUR FORCE THAT IS DEPRIVED OF ANY BARGAINING POWER.” HAN DONG FANG, HUMAN RIGHTS ACTIVIST

No jobs in sight

In spite of China's impressive growth and its success as an exporter, most Chinese have to look hard to see the signs of progress in their personal lives. Indeed, many of them would end up looking in vain. Around 250 million of its people, 16.6 percent of the population, still survive on less than US\$ 1 a day and close to 700 million, 47 percent of the population, live on less than US\$ 2 a day. Inequality has been rising sharply and China is now among the most unequal countries. There may be as many newly unemployed former industrial workers in the country as in the rest of the world put together. And as we have already seen in the previous section, most workers struggle to get by and risk losing their lives and limbs every day.

Surprisingly, China's economic rise and emergence as a labour intensive, leading manufacturer of cheap products for the whole world has resulted in a minimal number of new jobs. According to estimates from the World Bank, in the 1980s, when China's economic growth was at 9.3 percent a year, net employment growth was around 3 percent. And similarly, in the 1990s, when economic growth was about 10.4 percent, net employment growth was as low as 1.1 percent per year. This is due to increased productivity and the mass dismissals of workers employed in the sector controlled by the state.

All in all, between 1996 and 2001, the number of urban workers fell from 149 million to 108 million, a fall of 41 million or 28 percent. And what is worse, the new jobs created in the country are of even lower quality than the ones that were shed, since they are mainly of the informal and self-employed kind. As a consequence, this group climbed by 13.3 million, a 57 percent increase, in the urban areas from 1996 to 2001.^{xiv}

As China's population has increased significantly and large numbers of people have entered the labour market over the last two decades, during which employment creation has been weak, the country finds itself confronted with a giant problem of unemployment. Over time, more and more sacked workers become permanently unemployed. Their chances of reemployment have fallen due to the country's increasing oversupply of labour.

Where are my wages?

China's economic reforms have had a dramatic impact on the structure of remuneration in China. State controlled companies competing in an international market place have reduced welfare commitments to employees and tied wages to performance rather than seniority. While workers often complained about low wages in the past, they nevertheless found relief in the fact that SOEs were legally obliged to provide them with a range of benefits that thus constituted a considerable and valued part of the overall remuneration. Subsidies included working insurance, medical cover for themselves and their dependants, non-staple food allowances, winter heating and home-leave travel. On top of these employer obligations, the government also provided subsidised housing, education, medicines, transportation, and staple foods.

In 1979, average annual pay was 717 Yuan (US\$87) while government and employer subsidies were worth 879 Yuan, representing 122 percent of remuneration.^{xv} Foreign companies were unwilling to meet such requirements and pressure for reform of the pay system increased. Consequently, performance-related pay systems quickly spread to Chinese companies helped by changes in legislation that gave autonomous power to management, especially over hiring and firing practices and wages. In 1987, the State Economic Planning Commission proposed that the latter be fixed by enterprise managers and in 1992 enterprises were required to *“eliminate the egalitarianism characteristic of the pre-reform wage”* scale by basing wages on a combination of skills, responsibility, work intensity and working conditions.

Inspired by the truism ‘the bigger the differences in payment for labour, the more capitalist a society is’, wage differentials were also increased. Prior to reform, the highest wage packet in an enterprise was rarely more than two or three times the lowest. Today, a migrant worker in a foreign-owned shoe factory is unlikely to receive one twentieth of a middle-management wage. Along with individual contracts, these reforms were designed to foster competition among workers. And China's membership of the WTO is now opening the doors for another round of foreign investment that is intensifying the country's path of less equality and more job insecurity as multinational corporations gain more and more influence over the economy.

That China's workers are receiving less pay is one thing, however, that many of them additionally have to wait disproportionately long to receive their wages

“WE ARE STILL A POOR DEVELOPING NATION WITH VERY BASIC NEEDS: TO EAT AND DRINK. SOME RURAL AREAS ARE AS DEPRIVED AS THE WORST PLACES IN AFRICA. FOR MANY, A GOOD LUNCH IS ONE WHERE THEY CAN HAVE AN EGG RATHER THAN JUST CORN.” WANG HUIJUN, DEPUTY DIRECTOR OF CHINA'S FOREIGN MINISTRY

makes their situation even worse. A survey conducted in early 2003 by *Xinhua News Agency* in Beijing, Shanghai and Zhejiang revealed that 72.5 percent of migrant workers in these cities had had their wages withheld, with only 16.3 percent saying that they regularly received their wages on time. The Hong Kong-based *Apple Daily* also reported that a tidal wave of arrears was building up. The paper cited a dispute in the Hebei province where migrant workers had been recruited to build government premises, but the contractor had failed to pay wages before the Chinese New Year. The workers protesting outside the Gaoyi district government offices in Hebei were shocked that they encountered such a problem on a government project. “[We] have no idea why our wages are withheld even though we build premises for the government, not the private sector”, one worker told reporters. In the period before the New Year the government claimed that approximately 350 million Yuan (US\$ 43 million) of wages were retrieved for 620,000 migrant workers over the whole country – perhaps a testament to the extent of the problem, rather than proof of any capacity to tackle it.^{xvi}

And the problem doesn't seem to be disappearing. According to the ACFTU, total wage arrears for the country now stand at 100 billion Yuan (US\$ 12 billion) even though laws to encounter this have been set up. In Shenzhen, companies are liable to pay one percent interest on the overdue wages from the sixth day of the following month onwards as compensation for workers. *The Guangdong Regulations on Workers Rights 1994* also stipulates that workers can claim 5,000 to 50,000 Yuan in compensation if their wages are overdue for more than three consecutive months. However, research in south China has suggested that many employers regard holding back wages as a form of shop floor discipline: “Keeping wages in arrears for three to six months in an attempt to halt high staff turnover is common at the low end of the manufacturing industry. By leaving a factory without the required management permission, workers risk losing owed wages as well as personal files and the security deposit that most migrants are required to pay.”^{xvii} Some official newspapers have reached the same conclusion. Early in 2003, China Youth News reported that keeping wages in arrears is “reasonable and profitable”, even if the projects are government authorised.

JUMPING OFF BUILDINGS FOR UNPAID WAGES

Twenty three former mine workers were detained by police south of Beijing after attempting to commit mass suicide by jumping off a building close to the Supreme People's Court in central Beijing. The attempted mass suicide bid came after several thousand former miners had protested over the disappearance of funds earmarked for redundancy payments.

Claiming unpaid wages by jumping off or threatening to jump off buildings is a new tendency seen in many places in China. It is a tactic of workers – primarily migrants – that aims at attracting attention either through physical harm, the risk thereof or through arrest. It is a clear sign of the frustration felt by many Chinese workers who work an enormous amount of hours under degrading conditions, yet don't see any compensation, and thus have difficulties feeding their families.

Chaos following reforms

As already mentioned, since 1995, 59 million people, or 42.5 percent of those employed in the state owned enterprises, have been sacked from these enterprises. Together with other reforms that have been part of China's economic transformation, this has unleashed chaos on a substantial scale in relation to unemployment benefits, pensions and other social security provisions.

Following the reforms, there appears to be a major discrepancy between those who are unemployed and receive unemployment benefits, and those who claim them but do not receive any. Some estimates suggest that less than one third of the people defined as unemployed collect unemployment insurance. The confusion among workers is clear: *"I haven't registered with anyone. I wouldn't know much about that. Sure I've read about it but if you actually try to register, it's a different story. I spent one morning in an office waiting to register but then they told me I was in the wrong office. The mine doesn't do anything. They said we were being laid off xiagang but I am not sure what this means for us in practice. Nobody knows"*, a former miner told trade unionists from Hong Kong in 2003.^{xviii}

The method of mass lay-offs during the downsizing of the state owned sector quickly became known as *xiagang*, a term previously employed to describe a worker who was on extended leave from work for one reason or another – from attending a retraining course elsewhere in the country, maternity leave, to a prison

“THE RISING SOCIAL COSTS OF CHINA’S UNBALANCED ECONOMIC GROWTH ARE UNDERMINING THE POLITICAL STABILITY CRITICAL TO FUTURE PROSPERITY.” MINXIN PEI, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

spell. *Xiagang* applied only to SOE workers. In theory, it was accompanied by three years of job retraining, a reduced wage, medical allowances and continued formal attachment to one’s place of work. If a worker was still out of work after this three year period, he or she had to register as formally unemployed. From 2002 onwards, however, workers no longer get *xiagang* status and must take the fast track route to formal unemployment. This has already led to a rise in disputes over redundancy deals such as the huge protests by up to 80,000 former oil workers in Daqing in the spring of 2002.

A major contradiction in the *xiagang* arrangements is that most SOEs argued their need to lay off workers as one stemming from the necessity of reducing unit costs in the face of increased market competition, yet they continue to have more or less the same costs connected with the employees for three years after their redundancy. Unsurprisingly, they are often unwilling or unable to do so. Consequently, protests by laid off workers have become an almost daily occurrence despite the fact that local governments are supposed to make up any shortfall in the workers’ living allowances.

Yet *xiagang* might have completed its mission. It has more or less successfully cushioned the potentially dramatic consequences of what was effectively a three-year wave of mass sackings from 1998 to 2001. Although social unrest has accompanied the lay-offs, it has most often not spread beyond the parameters of a particular factory. Hence, given the intense feeling of betrayal that former SOE workers often express, there seems little doubt that the phased introduction of formal unemployment via *xiagang* has achieved its political goal – avoiding a mass scale of organised social unrest.

Along with the carrot and stick technique for dealing with collective protests, one of the ways this was achieved was by using a technique mastered by bosses and governments worldwide when dealing with potential and actual worker unrest: divide and conquer. Thus, various categories of *xiagang* status were established, with the dividing criteria based on the type and size of enterprise, age of employee, location, residential status etc. The hierarchy of treatment undoubtedly serves to hamper unity and solidarity among workers, particularly as *xiagang* formally did not rule out a possible return to work should the performance of an enterprise improve.

While it might have worked for the government, for millions of SOE workers, especially women, *xiagang* was a traumatic psychological shock to a class of people who thought they were set for life. The social position of now former SOE women workers has profoundly weakened. Far from being on the margins of urban society, these women were, prior to *xiagang*, at the core of the old production system – the masters of the country's enterprises. Research found that 17.9 percent of a group of former women workers surveyed received no livelihood allowance from their employer after being laid off. 11.6 percent of them received less than 100 Yuan per month and 56.5 percent of them between 100-200 Yuan per month. The average income at the time and place of the survey was 595 Yuan per month.^{xix}

More generally, an ACFTU survey of re-employed workers laid-off from SOEs found that 18.6 percent were odd-job manual workers, 10 percent did various sorts of hourly work, which usually refers to activities such as picking up others' children from school, 5.2 percent had seasonal jobs, 60 percent were retailers operating stalls, and a mere 6.8 percent had obtained formal, contracted employment. A worrisome 45 percent among the stall keepers were discovered to be highly vulnerable, mobile peddlers selling in shifting sites without a license.

RETIRED, BUT STILL WORKING

Along with the privatisations of state-owned enterprises, the government has launched an unprecedented wave of reforms of social security in the urban areas. They have left many pensioners very angry. Many who have given their working lives to constructing 'New China' now feel that they have been left abandoned and on their own.

The following is an extract from an interview with a former SOE worker from a bankrupt textile mill in Shanghai, who now works as a cleaner for a large hotel. It gives a glimpse of the feelings of many retired workers, even in a prosperous city such as Shanghai.

Researcher: *"If you are retired, how come you are working here?"*

Cleaner: *"No money."*

Researcher: *"How much is your pension from the mill?"*

Cleaner: *"About 300 Yuan. I can draw it regularly but it's still not enough. I still live in the old work unit flat but the rent has gone up. I can't afford it. My husband is dead and my son is out of work."*

Researcher: *"How do you feel about working in your retirement?"*

Cleaner: *"Look, I am nothing. I have nothing. If I am ill I have to pay for the medicine. The work unit doesn't pay anymore. It's bankrupt. Don't ask me how I feel! How would you feel?"^{xx}*

Inequality on the rise

China today experiences several problems related to social justice. Many of them are directly linked to its place in the global production circuit. A considerable number of people, despite working far in excess of the maximum number of working hours, do not receive a living wage and cannot afford to keep a family above the poverty line. Most migrant workers employed in the private sector in unskilled jobs are unable to keep their families in the cities and leave them at home to survive on the farm or in an extended family network. All in all, most wages for those employed at the lower end of the social scale do not pay enough to provide food, rent and other basics for a family – let alone savings, education for their children and medical costs in the event of an illness.

Though the last decades have seen some welcome increases in the living standards of many in China, more than half of the people are still living in poverty. Only 44 percent of the population has sustainable access to sanitation and 23 percent are without access to improved water sources. Wang Huijun, Deputy Director of the country's Foreign Ministry, recently summed up the situation: *"We are still a poor developing nation with very basic needs: to eat and drink. Some rural areas are as deprived as the worst places in Africa. For many, a good lunch is one where they can have an egg rather than just corn."*^{xxi}

MINIMUM WAGES – NOT EVEN ENOUGH FOR A MINIMAL LIVING

The Guangdong provincial government set new minimum wages in December 2004. They are divided into the following categories: the first category is 684 Yuan per month, the second category 574 Yuan, the third category 494 Yuan, the fourth category 446 Yuan, the fifth category 410 Yuan, the sixth category 377 Yuan, the seventh category 352 Yuan. All in all, just between 84 US \$ and 44 US \$. Each region within the province can choose its own minimum wage, which should not be lower than the seventh category. The different districts within a city can also have different wage levels.

The new minimum wages have allegedly been raised by 8.6%. Yet, because the new minimum wage includes workers' social security fee, the actual increase is much less. In Guangzhou for example, workers are left with only a 3.7% raise when the minimum social security fee has been deducted.

Even those that make more than the minimum find it hard to get by. *"I work 8 hours a day and receive 800 Yuan per month. Little will be left after paying 82 Yuan for gas,*

and more than 300 Yuan for water, electricity, rent and other bills. For a mother who has to raise a child, even 800 is not enough”, says Liu Yongli, a woman from the Hunan province currently working for the local government.^{xxii}

When economies develop and transform quickly, their new growth is rarely balanced across their regions or sectors – and China is no exception. Indeed, it is clear that its pattern of growth has had a strong influence on the evolution of both poverty and inequality in the country. Thus, its sectoral and geographic pattern of growth has not been particularly pro-poor. Migration to urban areas has helped reduce poverty nationally but has not done much for the rural areas. And growth in the primary sector of mostly agriculture has done more to reduce poverty and inequality than growth in either manufacturing or services.

With its *nouveau riche*, China has become a more unequal country. Overall inequality in disposable income – measured through the Gini index by UNDP – has increased from below 30 in the early 1980s to 44.7 in 2001, giving China an income disparity much worse than countries like India and Indonesia, at 32.5 and 34.3 respectively. And this difference has without doubt been growing for the few last years, hence the rate might be closer to 50 today. The richest 10 percent of the population – who are almost 20 times richer than the poorest 10 percent – are responsible for 33 percent of the consumption in the country while the poorest 10 percent account for only 1.8 percent.

The national development in inequality has been mirrored at the provincial level. Thus, income inequality within urban areas has increased from a Gini index of 23 in 1990 to 32 in 2001, and risen from 31 to 36 in rural areas in the same period. Although China’s inequality level isn’t the worst among developing economies – Brazil’s and Malaysia’s for example are still higher – its rapid increase is exceptional and quite worrying, since history shows that such gaps do not tend to narrow.

One thing is differences within regions and cities, another is disparities between these. The coastal areas of China have emerged as urban, economic powerhouses, while the interior regions still mainly rely on agriculture and have become renowned for their job-seeking migrants. As a result, disparities are very pronounced in the country: the ratio of urban to rural incomes increased from 2.2 in 1990 to 3.1 in 2002, meaning that rural incomes are but a third of those in the cities. And if measured in the richest parts of the country, the

difference is indeed tenfold. While GDP per capita in the countryside is estimated to be US\$ 350 a year it is US\$ 4,500 in Shanghai. The consequences of the rural poverty that these differences are based on are not hard to spot: in 35 poor and rural areas recently surveyed for a World Bank project, four out of ten children aged 7 to 15 had received no schooling whatsoever.

But in fact, the rising inequality in China is not just a problem of social justice. It also poses a challenge to overall poverty reduction, to continued economic growth and to political stability. Recent history shows that the Chinese provinces that started the reform period with relatively high inequality faced a double handicap: they had lower subsequent growth and the poor shared less in the gains from that growth. And moreover, the provinces that saw a quicker increase in rural inequality saw less progress against poverty.^{xxiii} Thus, rising inequality may very well put a serious brake on China's pace of poverty reduction and its future growth. Developing its economy on the backs of its massive and cheap workforce and sacrificing workers' rights to achieve economic competitiveness in the process, is not a sustainable strategy for prosperity and welfare.

Migrants – A growing underclass without a future?

“Some farmers have given up and left their land to try and find work in the towns and cities as coolies, vegetable and fruit pickers, sex workers or beggars. We euphemistically refer to this great mass of people as ‘peasant workers’. But we rarely mention the fact that they can't afford to pay for their children's education or to see a doctor.” Yong Quan, most probably an alias, writing on a Chinese web forum.

An estimated 120 million people originally from rural backgrounds have found employment in China's cities or in other booming coastal areas far from their hometowns and villages. Millions of others have also set off for their journey towards fortune but not yet found it in the form of work. It is estimated that another 7 to 10 million new migrants head towards the cities every year, and that 60 percent of them take up jobs outside their home province.

A report released by the Ministry of Labour and Social Security in May 2005 furthermore revealed that 62 percent of migrant workers seek jobs in the eastern provinces, 20 percent in the central provinces and 18 percent in the

western provinces. The main provinces exporting workers are Anhui, Jiangxi, Sichuan, Hunan, Hubei, Henan, Guangxi, Chongqing and Guizhou. The report further noted that the average age of migrant workers is 29. About 45 percent of them are between the ages of 16 and 25, and 61 percent are under 30. Migrant workers are generally poorly educated. 83 percent of them only have a junior secondary school education or less, and 72 percent of them have never received any occupational training. But not only do the rural migrants lack skills, they most often also lack residency permits needed to compete for the better, registered jobs in the urban areas.^{xxiv}

Workers from the countryside are discriminated against in several ways. First of all, through the extensive restrictions on freedom of movement brought about by the hukou system. This system is a form of household registration whereby each family member is registered according to his or her family residence. And rural residency is very hard to change. The majority of rural residents, despite living in urban areas, therefore have to keep their rural status, which is also passed onto their children. Today it is estimated that there are up to 100 million people living in areas different from their registered status. This poses grave problems, as residing illegally in an urban area makes one ineligible to receive education, access to medical care, housing and other public services. And due to the hukou system, rural migrants are disqualified from freely seeking and obtaining the better-paid opportunities in the cities, unless they can obtain temporary residency and work permits.

Migrants' first jobs in the cities are most often obtained through labour recruiters who travel to villages and rural towns looking for groups of people to work on projects. In most cases, the potential migrants have no idea about what type of work they will undertake and if they will be paid what they are promised. Promises often fail to materialise. In the end, many of the people leaving the countryside often resort to illegal work, without permits or

“SOME FARMERS HAVE GIVEN UP AND LEFT THEIR LAND TO TRY AND FIND WORK IN THE TOWNS AND CITIES AS COOLIES, VEGETABLE AND FRUIT PICKERS, SEX WORKERS OR BEGGARS. WE EUPHEMISTICALLY REFER TO THIS GREAT MASS OF PEOPLE AS ‘PEASANT WORKERS’. BUT WE RARELY MENTION THE FACT THAT THEY CAN’T AFFORD TO PAY FOR THEIR CHILDREN’S EDUCATION OR TO SEE A DOCTOR.” YONG QUAN

residency, and with no contracts or benefits. This makes them very vulnerable to arbitrary dismissal, illegal working conditions, wage arrears or simply non-payment of wages.

In summary, cultural discrimination, a lack of educational opportunities in the countryside, and the ease with which they can be exploited, merely qualifies migrants for low paying positions in labour intensive industries. Migrants have, however, started to demand higher wages and better conditions, particularly in the South. The prospect of rising above their current position as a poor and widely exploited underclass without any rights does not seem likely in the foreseeable future.

THE LIFE OF A SICHUAN MIGRANT WORKER

"I am from Sichuan. 30 years old. When I left my home county I was just 23 and went straight to Wuhan with my brother. That was back in 1996. My brother got a job on the roads pretty quickly. They didn't take me on. I don't know why. But I wasn't that bothered as I was more interested in trying to get to the South and work in a Shenzhen factory. Eventually I got work in a large glove factory. I was lucky as they generally employ women.

This is a big factory and I have never seen so many people in one place before. The machines are operated by men. The women mostly work on the lines. I am quite familiar with operating machinery so it wasn't too bad, even at first. For us migrants, the first few days in a factory are often the most difficult. Lots of people don't like it and leave quickly. That's why the bosses ask for a work deposit.

I have been at this factory for about six years now. I used to send money back home, but there is no urgent need for it now as all of us kids are working. There are three of us, all boys, and we are all working away from home now. My parents still work on the land but none of us want to go back. I prefer it here in Shenzhen - even though I live in a dormitory with about 20 other guys.

I guess I will have to go back eventually. I don't know what I will do then. Maybe open a shop, like I just said. It's difficult for us as there is not a lot of work in Sichuan. Unemployment is very high.

I think I have been lucky. On the TV they sometimes broadcast programmes about bosses who are really nasty. There was a programme about a tin mine boss in Guangxi. I remember it really well. He tried to hide the corpses of the dead miners.

My brother has not been as lucky as me. He's been in lots of different jobs and hasn't saved any money.

Most of the workers in my factory get the minimum wage: about 400-500 Yuan a month. It's against the law to pay any less. I get a machinery bonus. I don't think more migrants will affect my wages. There are so many migrants in Shenzhen already. I think the main thing is the law."

Troublesome secrets

'Seek truth from facts' is perhaps Mao Zedong's most famous pronouncement. Yet in present-day China it is almost impossible to follow the late chairman's instructions if one seeks the truth about socio-economic facts and tries to use the country's authorities as a resource for the facts. On a range of issues there are no official records and those that do exist contain statistics are contradictory and often more misleading than enlightening.

First of all, there is a serious problem with the way people are categorised for the different statistics, which explains the lack of consistency in the figures. These include various and complicated categories of laid off workers, due to vested interests in over- or under-reporting by state firms and local government officials, under-registration of formal unemployment, and the exclusion of temporary or migrant workers resident in the cities. Secondly, and more significantly, China keeps most of their central statistics secret – not least the ones on employment and other associated issues such as protests and strikes. In China apparently, employment is not just a political priority but a strategic issue shrouded in the same secrecy as questions of national security. It is a matter the authorities pay special attention to and have a particular interest in. The obvious question is why do employment statistics and records of workers' activities have this status? Why are they classified as state secrets? And why do they have this strategic importance to the country's authorities?

In a country with one-and-a-half billion people, the answer is obvious: stability. Though most Chinese still live quite isolated lives in remote villages in the heartland's many rural areas, with the country's new economic openness, even small fluctuations in the global economy can make a good 10 million people unemployed within a short time. In a country where the government, not least the party, is considered to be responsible for most things that happen to people, this could quickly create antigovernment sentiments. Moreover, with a demographic challenge of more and more people aged for labour and a wave of urbanisation that is still picking up pace, it is obvious that China will need to create millions of new jobs. Again, if it fails, the situation will far from be stable. And lastly, for decades the government and the ruling party have known that if there is one group of people in the country who hold the potential to organise mass disorder and revolt, it is the workers. So employment, the already present lack of it and the future need to create more of it, is a ticking bomb under China's economic development and political stability. And most worryingly for the Chinese government, several events and factors can detonate it.

EMPLOYMENT STATISTICS ARE STATE SECRETS IN CHINA

State secrets in China cover a wide range of issues and areas of control. The scope of what is defined as a state secret covers not only issues concerning national security, such as military or political secrets, but also a variety of issues that just have not been approved by the authorities as public. In fact, the laws allow for an almost indefinite and extremely elastic expansion of the definition. Moreover, material can retroactively be classified as a state secret if the authorities determine that the consequences of its disclosure have harmed or have the potential to harm the “security and interests of the state.”

Statistics are one of the areas most tightly controlled under the legislation, including those regarding labour. Employment, along with other labour related areas such as protests, strikes and structural reform, is the subject of two main regulations issued jointly by the State Secrets Protection Bureau. The first was issued in 2000 by the State Secrets Bureau and the Ministry of Labour and Social Security (MOLSS), and the other by the All China Federation of Trade Unions (ACFTU) and the State Secrets Bureau in 1996.

There are three main areas of state secrets; “top secret” (juemi), “highly secret” and (jimi), “secret” (mimi). Finally there is “internal” (neibu) which, although it is not strictly a state secret, constitutes internal material which should not be disclosed without approval of the relevant organ. The two regulations dealing with labour related-state secrets include highly secret, secret and internal classification.

The regulations state: “Undisclosed unemployment rates, social insurance fund revenue and expenditure forecasts” of the Ministry of Labour and Social Security and “composite information and statistical figures held by the ACFTU concerning the unemployment and livelihood hardships of workers” are “secret”. Statistics about the total number of “laid-off workers” (xiagang) in State Owned Enterprises (SOEs) and the “distribution plans concerning basic living guarantees and re-employment funds” for these workers are categorized as “internal”. Information on wages for those employed including “investigative materials and statistical data which reflect the macroscopic situation of wage distribution in enterprises nationwide” are “secret”, whereas information such as “revised wage policies and plans concerning enterprises at the national level” is regarded as “highly secret.”

In addition, any objective assessment of the provision of benefits, pensions and other allowances for SOE workers or former workers is hampered by the fact that official corruption regarding such payments is also considered secret - “information concerning major cases of embezzlement and the illegal use of social insurance funds, and informants in such cases” is in fact “highly secret.”

Labour unrest and protests by workers are covered by both the regulations and are “highly secret”. In the MOLSS regulation it says that “composite nationwide information regarding workers’ collective petitioning, strikes, and other major incidents” is classified as “highly secret”. And the regulation issued by the ACFTU also considers

“information and statistics held by trade unions on workers’ collective petitioning, strikes, demonstrations, marches and other major incidents” as “highly secret”.

Furthermore, “plans and countermeasures for participating in meetings of the International Labour Organization and other important international meetings” are classified as “highly secret” by the MOLSS regulation and “work plans and countermeasures concerning participation in the International Labour Organization and bilateral and multilateral communications with trade union organizations of other nations” are ranked as “secret” by the ACFTU.

More broadly, overall policymaking on potentially sensitive issues such as national policies on social security, welfare and labour in general are also protected as a state secret - “statistical materials on labour protections” and “undisclosed implementation of major policy measures and revised plans concerning labour and social security matters” are “internal”.^{xxv}

When official Chinese statistics are a maze of confusion rather than an enlightening source of information, other sources must be sought. For long nothing but qualified guesses and estimations existed. But in late 2005, the International Labour Organisation released a ground study of the recent trends and future challenges of employment in China.^{xxvi} The study, first of all, analyses employment creation from 1990 to 2002, and identifies two quite different trends during this period.

Throughout the period of 1990 to 2002, aggregate employment in the Chinese economy grew at an average annual rate of 1 percent. This growth was fully accounted for by China’s cities. Thus, urban employment growth was at 3.5 percent per year, while rural employment showed zero growth. In spite of the cities’ industrialisation in the period, this urban employment growth covers only irregular employment – that is, migrant workers and urban laid-off workers, who hold casual wage-employment, in construction or services for example, or are self-employed, in street vending, repair services and the like. Thus overall, employment conditions in urban areas actually deteriorated in the period. In contrast, employment conditions in the rural areas improved, since regular employment grew while irregular employment declined.

“WE NEED TO CREATE 20 MILLION NEW JOBS EACH YEAR”.
AN OFFICIAL OF THE STATE COUNCIL, CHINA’S CABINET.

EMPLOYMENT GROWTH 1990-2002^{xxvii}

PERCENT PER ANNUM

| | RURAL | URBAN | TOTAL |
|-----------|-------|-------|-------|
| Formal | 3.3 | -3.0 | -0.6 |
| Regular | 1.1 | -0.4 | 0.8 |
| Irregular | -2.3 | 18.5 | 3.2 |
| Total | 0.1 | 3.5 | 1.0 |

However, from 1996 to 2002 employment growth was due entirely to a dramatic growth of irregular employment in the urban areas. Formal employment in urban areas showed a steep decline and the growth of informal employment was not sufficient to prevent a rapid decline in regular employment. Such a decline is a negative sign in terms of labour market sustainability and societal well-being: growth of regular employment is a true indicator of growth of labour *demand* while growth of irregular employment is a symptom of growing *excess supply* of labour.

As already mentioned, the mass layoffs in state owned enterprises began in 1995 and claimed more than 50 million workers' jobs in the next five years. Thus, the unfavourable employment trends in urban China during 1996-2002 are mainly attributable to the elimination of workers in this sector. All in all, some of the urban job-losers did find new jobs in the emerging informal sector, some became unemployed and some withdrew from the labour force, with the latter part being so big that the labour force participation rate of urban residents fell from 72.9 percent in 1996 to 66.5 per cent in 2002.

The loss of jobs in China went hand in hand with gains in productivity. From 1996 to 2002, when manufacturing employment declined at a rate of more than 3 percent per year, the growth of labour productivity was nearly 12 percent. This suggests that the poor employment effect of growth in this period is explained by both the process of shedding of labour in the SOEs and rapid technological change. The most important point, that employment conditions worsened in the period, was hardly mentioned whilst talk of China's economic miracle became more and more dominant.

OUTPUT AND EMPLOYMENT 1990-2002^{xxviii}

AVERAGE ANNUAL RATE OF GROWTH IN PERCENT

| | 1990-96 | 1996-2002 | 1990-2002 |
|-------------------------|---------|-----------|-----------|
| OUTPUT | | | |
| GDP | 11.3 | 7.5 | 9.3 |
| Agriculture | 4.1 | 2.7 | 3.6 |
| Manufacturing | 14.6 | 8.7 | 11.2 |
| Other industries | 20.0 | 8.3 | 14.0 |
| Services | | | |
| EMPLOYMENT | | | |
| Total | 1.6 | 0.1 | 0.8 |
| Agriculture | -0.9 | -0.2 | -0.4 |
| Manufacturing | 2.1 | -3.1 | -1.1 |
| Other industries | 3.5 | 0.4 | 1.5 |
| Services | 7.2 | 2.4 | 4.6 |

As in most other developing countries, self-employment is still a significant form of employment in China. Despite China's recent industrialisation and strong economic results, the relative importance of self-employment has remained stable. On the other hand, formal wage-employment has declined in importance and informal wage-employment has risen in importance. Again, a negative sign for the people trying to live decent lives. Most remarkably though, the change in the structure of employment was healthier in the rural economy than in the urban economy. In the latter, in contrast, self-employment, informal wage-employment and irregular employment have all grown in importance while the relative importance of formal wage-employment has declined.

STRUCTURE OF EMPLOYMENT BY STATUS^{xxix}

| PERCENTAGE DISTRIBUTION | | | | | | |
|--------------------------------|------|--------|------|--------|------|--------|
| TOTAL | 1990 | | 1996 | | 2002 | |
| SELF-EMPLOYMENT | 56.1 | (64.0) | 56.3 | (61.9) | 54.5 | (63.1) |
| REGULAR WAGE EMPLOYMENT | 31.5 | (36.0) | 34.7 | (38.1) | 31.9 | (36.9) |
| Formal sector | 31.2 | (35.6) | 33.0 | (36.2) | 27.3 | (31.6) |
| Informal sector | 0.3 | (0.4) | 1.7 | (1.9) | 4.6 | (5.3) |
| Irregular employment | 12.4 | - | 9.0 | - | 13.6 | - |
| RURAL | | | | | | |
| SELF-EMPLOYMENT | 73.7 | (85.1) | 75.3 | (81.5) | 76.9 | (77.6) |
| REGULAR WAGE EMPLOYMENT | 12.9 | (14.9) | 17.1 | (18.5) | 22.2 | (22.4) |
| Formal sector | 12.6 | (14.5) | 16.0 | (17.3) | 19.3 | (19.5) |
| Informal sector | 0.3 | (0.4) | 1.1 | (1.2) | 2.9 | (2.9) |
| Irregular employment | 13.4 | - | 7.6 | - | 0.9 | - |
| URBAN | | | | | | |
| SELF-EMPLOYMENT | 3.7 | (4.1) | 8.9 | (10.1) | 9.6 | (15.7) |
| REGULAR WAGE EMPLOYMENT | 86.8 | (95.9) | 78.9 | (89.9) | 51.4 | (84.3) |
| Formal sector | 86.5 | (95.6) | 75.8 | (86.4) | 43.2 | (70.9) |
| Informal sector | 0.3 | (0.3) | 3.1 | (3.5) | 8.2 | (13.4) |
| Irregular employment | 9.5 | - | 12.2 | - | 39.0 | - |

Note: Figures in parentheses show the distribution of regular employment

As pointed to several times already, mass unemployment in the cities has been a major consequence of China's reforms in the 1990s. In relation to this phenomenon, the ILO study concludes that the official estimates of registered unemployment "seriously understate the magnitude of the problem." They find that among workers who are long-term urban residents, the unemployment rate by 2002 was around 11-13 percent. The unemployment rate among rural migrants was much lower though, since the fact that most rural migrants end

up in irregular employment means they face underemployment rather than unemployment. Moreover, when faced with unemployment, rural migrants can be expected to move, either back to their homelands or further on to pursue their luck in other urban centres.

ESTIMATES OF CHINA'S URBAN EMPLOYMENT RATE IN PERCENT^{xxx}

| YEAR | CENSUS DATA | SURVEY DATA | OFFICIAL REGISTERED UNEMPLOYMENT | ADJUSTED UNEMPLOYED (OFFICIAL + LAID-OFF) | ESTIMATED UNEMPLOYMENT |
|------|-------------|-------------|----------------------------------|---|------------------------|
| 1990 | 4.2 | | 2.5 | 2.9 | 4.2 |
| 1991 | | | 2.3 | 3.2 | 4.7 |
| 1992 | | | 2.3 | 3.9 | 5.5 |
| 1993 | | | 2.6 | 3.2 | 7.1 |
| 1994 | | | 2.8 | 3.6 | 8.6 |
| 1995 | 7.7 | 9.6 | 2.9 | 4.3 | 7.7 |
| 1996 | | | 3.0 | 4.8 | 7.3 |
| 1997 | | | 3.1 | 5.5 | 9.2 |
| 1998 | | | 3.1 | 4.5 | 10.8 |
| 1999 | | 11.6 | 3.1 | 6.3 | 12.5 |
| 2000 | 11.5 | | 3.1 | 8.1 | 11.5 |

By and large, the poor development in employment conditions and opportunities in China confronts the country's policy makers with one clear challenge: to reverse the rising trend of unemployment and in irregular employment without restricting rural-to-urban migration. This requires accelerated growth of regular employment.

What's trade got to do with it?

Impact assessments on employment are not part of multilateral trade negotiations in the WTO. Not yet, at least. However, if such assessments had been the foundation for China's accession to the WTO, and if they had been publicly available, the general Chinese worker would most probably have had a clear idea about the membership: not such a good idea!

Notwithstanding China's export success that has been enhanced through WTO membership, a negative impact of accession on employment will be a reality. It will come through import competition and the resulting closure of inefficient domestic firms, especially those in the state sector. However, this impact will not be evenly spread across industries but will hit hardest the areas of agriculture, automobiles and machinery. Estimates by World Bank researchers suggest that employment in the agricultural sector will be reduced by 9.6 million, 3.6 percent of the current total, automobiles by just 5 million, 14.5 percent of the total, and machinery by 5.8 million, 2.5 per cent of the total in the first seven years after accession.^{xxxii}

Though effects differ from industry to industry, the overall employment situation following WTO accession is very challenging. China's labour force will grow by around 80 million people over the next decade, from approximately 742 million in 2000 to more or less 822 million in 2010. Considering these new entrants to the labour market and the continuing employment losses in agriculture and in state-owned enterprises, China will need to create 10 to 20 or 30 million new jobs each year. This is much higher than China's current job-creation capacity. Over the ten year period, high technology and advanced manufacturing sectors are not expected to be able to add more than one tenth in. The main source of job creation will therefore continue to have to be labour-intensive industries, such as textiles and services.

Though WTO membership also brings advantages with it, the negative employment impact of the accession stands to be greater than its positive effect, especially in the short run. Those benefiting straight away are primarily qualified white collar employees and private capitalists, the people who have already gained most over the last ten years of reforms, while those who are losing are many blue-collar workers, farmers and unskilled office workers, those whose income has remained stagnant for the last ten years.

Just as WTO membership does not seem to have a positive influence on employment in China, it does not seem to change the development of rising inequality or to do much positive for poverty eradication in the country either. Recent Chinese history shows no positive correlation between poverty eradication, the opening up of markets and participation in international trade.

China experienced a dramatic decline in poverty in the first few years of the 1980s, with the rural poverty rate falling from 76 percent in 1980 to 23 percent in 1985. The late 1980s and early 1990s were more difficult periods for

China’s poor, with poverty actually rising in some of the years. Progress was restored around the middle of the 1990s, when rural poverty dropped to 11.5 percent (1998). The late 1990s, however, saw a slow down in poverty elimination again, and in 2001 rural poverty was at 12.5 percent.^{xxxii}

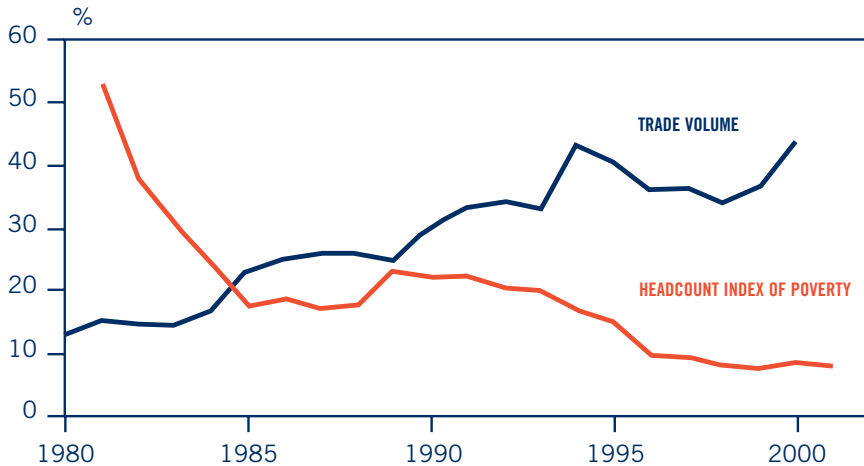
The early 1980s saw high growth in agricultural output and rapid rural poverty reduction in the wake of the de-collectivisation and the privatisation of land rights under the ‘household responsibility system.’ Agricultural land had previously been farmed by organised brigades, in which all members shared the output equally. These reforms were without doubt important in stimulating rural economic growth at the early stages of China’s transition.

Overall, there are reasons to be sceptical of the correlation between trade reforms and poverty eradication. A number of other factors were at work. Moreover, the bulk of the trade reforms did not occur in the early 1980s, when poverty was falling most rapidly, but later, notably with the extension of the special economic zone principle to the whole country in 1986, and from 1995 and up to China’s accession to the WTO. Average tariff rates fell only slightly in the 1980s and non-tariff barriers actually increased. And some of the trade policies of this early period were unlikely to have been good for either equity or efficiency. Arguably the bulk of China’s trade reform has been after the times of most rapid poverty reduction, and indeed in times of relatively stagnant poverty eradication.

CHINA’S BARRIERS TO EXTERNAL TRADE^{xxxiii}

| | MEAN TARIFF RATES (%) | | | | NON-TARIFF BARRIERS (%) | | | |
|---------------------|-----------------------|---------|---------|---------|-------------------------|---------|---------|---------|
| | 1980-83 | 1984-87 | 1988-90 | 1991-93 | 1980-83 | 1984-87 | 1988-90 | 1991-93 |
| PRIMARY | 22.7 | 20.6 | 19.1 | 17.8 | N.A | 19.7 | 58.9 | 40.7 |
| MANUFACTURED | 36.6 | 33.2 | 34.3 | 37.1 | N.A | 16.1 | 34.4 | 19.2 |
| ALL PRODUCTS | 31.9 | 29.2 | 29.2 | 30.6 | N.A | 17.2 | 42.6 | 26.4 |

POVERTY RATES AND TRADE VOLUME IN CHINA BY YEAR



Since China had already had started to adapt to the expected change, well before its official WTO accession in 2001, another way of looking at the question of trade and poverty eradication is by dividing the time around accession to the WTO in two – the lead up, in which tariffs started to fall in anticipation of accession, and the period from this point onwards– and then analyse the impacts in these two periods. From 1995 to 2001 an overall gain of about 1.5 percent in mean income took place. In the next period, 2001-2007, the development in mean income is so far neutral and it is expected to continue to be so. From 2001 to 2007, poverty is moreover projected to increase slightly as a result of the price changes most probably taking place after the remaining tariff changes.^{xxxiv}

“WAL-MART PRESSURES THE FACTORY TO CUT ITS PRICE, AND THE FACTORY RESPONDS WITH LONGER HOURS OR LOWER PAY. AND THE WORKERS HAVE NO OPTIONS.”

CHINESE LABOUR OFFICIAL WHO DECLINED TO BE NAMED IN FEAR OF PUNISHMENT.

PREDICTED AGGREGATE IMPACTS OF WTO ACCESSION IN CHINA^{xxxv}

| | RURAL | URBAN | NATIONAL |
|--|---------------|--------------|---------------|
| MEAN GAINS (YUAN/CAPITA) | | | |
| 1995-2001 | 34.47 | 94.94 | 55.49 |
| Percentage of mean income | | | 1.54% |
| 2001-2007 | -18.07 | 29.45 | - 1.54 |
| Percentage of mean income | | | - 0.04% |
| POVERTY IMPACT – HEADCOUNT INDEX, % | | | |
| OFFICIAL POVERTY LINE | | | |
| Baseline (1999) | 4.38 | 0.08 | 2.92 |
| Simulated: Less Gains 1995-2001 | 4.56 | 0.08 | 3.04 |
| Simulated: Plus gains 2001-2007 | 4.57 | 0.07 | 3.04 |
| \$1 A DAY (1993 PPP) | | | |
| Baseline (1999) | 10.51 | 0.29 | 7.04 |
| Simulated: Less Gains 1995-2001 | 10.88 | 0.28 | 7.28 |
| Simulated: Plus gains 2001-2007 | 10.81 | 0.28 | 7.23 |
| \$2 A DAY (1993 PPP) | | | |
| Baseline (1999) | 45.18 | 4.07 | 31.20 |
| Simulated: Less Gains 1995-2001 | 46.10 | 4.27 | 31.88 |
| Simulated: Plus gains 2001-2007 | 45.83 | 3.97 | 31.60 |

All analyses suggests that trade openness in China has had a negligible effect on total poverty – in fact rather halting poverty eradication than enhancing it. Moreover, inequality is expected to be influenced negatively by WTO membership: about three-quarters of rural households are predicted to lose real income in the period 2001-07. This scenario is true for only one in ten urban households.

All in all, trade liberalisation has been no panacea. Therefore, if the Chinese government's strategy for further growth, employment creation and poverty eradication is based only on securing a larger share of global trade, it is doomed to fail. Unemployment will continue to rise, poverty eradication will stall and inequality will rise dramatically.

Authoritarian rule in the name of economic development

The political, social and economic playing field in China is far from level. The government is unelected and the people, not least the workers, are unrepresented.

Like most undemocratic regimes, the Chinese rulers have one overriding aim: to keep power. The Chinese government hopes that if living standards are rising, consumption increasing and more people feel they might succeed economically, they will be ready to accept the lack of political, human and social rights.

However, workers are an uncertain, potentially problematic factor in this equation. They tend not to settle for economic handouts but continuously prioritise social justice. And they have a latent capability for organising in millions, staying strong through unity and not giving in for oppression. Without doubt, the Chinese Communist Party is very much aware of this – that workers, unified at a national scale, have the potential to bring down governments, especially when these are unelected and autocratic. Unified national workers' movements have had a strong role in many political changes around the world, from getting labour parties elected in well functioning democracies to overthrowing dictatorial regimes in countries where democracy was suppressed.

In order to halt the formation of a critical and challenging labour movement, the government is determined to maintain the monopoly on workers organisation of the party-controlled All China Federation of Trade Unions. Traditionally the main role of the ACFTU has always been to assist the government in the primary task of ensuring social and political stability. Yet at the same time it is now under pressure to respond to the obvious problems and inequalities emerging in the new economy, partly to end the industrial unrest that is growing in China – particularly when the state enterprises close down. It is caught between these contradictory aspirations and often seen taking the side of the employers.

IN WHOSE INTEREST? CHINESE TRADE UNIONS TAKING THE EMPLOYER'S SIDE

A trade union official represented the employer instead of the worker during a labour case in an ironic courtroom drama 30 September 2005.

Ma Ruixing, a worker who had worked in the Dajianshan Forestry in the Shanxi Province, for about two decades, received a retirement notice in February 2004. He was asked by his employer to retire at the age of 55, under an arbitrary internal rule set by the forestry. After he refused to retire early, the forestry management started to pay him only half of his wages.

After that, Ma Ruixing filled a complaint to the Labour Disputes Arbitration Committee of the Qinshui County. Surprisingly though, instead of representing Ma, the chairman of the forestry's trade union represented the employer in two separate hearings. Not only did he defend the employer, his role was clearly stated as 'representative of the employer', even in the arbitration committee's final judgment.

Learning about this, Ma was outraged and disillusioned. He realized, however, that the union official was violating the Trade Union Law – which states that 'If enterprises infringe upon staff members and workers' interests, their trade unions may voice their opinions on mediation. If staff members or workers file lawsuits at People's Courts, their trade unions should give them support and assistance' – and filed a new complaint to the Shanxi Provincial General Trade Union. The forestry trade union official was thereafter reprimanded by the provincial union, but kept his position in the trade union.

Other reports like this one suggests that representatives of the ACFTU more and more often take the employer's side in labour disputes.^{xxxvi}

Repression and widespread use of surveillance notwithstanding, the Chinese government is relying on an almost endemic fear of *luan* or chaos among many Chinese workers, as in the rest of society, to prevent a national labour movement from emerging. This fear of *luan* has its immediate roots in the early phases of the ten-year Cultural Revolution that preceded the reform period. It is given further legitimacy by the bitterness, violence and sense of betrayal that has swept over the many regions of the former Soviet Union. The events in Indonesia and the removal of General Suharto by a popular uprising have also been a useful 'warning' for the Chinese Communist Party.

Covertly and through sophisticated communication tools, the authorities try to convince China's workers that they have no interest in jeopardising the country's stability by protesting against the present regime. In many instances, however, the authorities have had to go to greater lengths to prevent workers

from organising and protesting, and to avoid their protests from spreading beyond their immediate locale and provoking sympathy action. As massive unrest in North-East China during the spring and early summer of 2002 made clear, this involves media blackouts, denial of the right to demonstrate, police spies and 'visits' to workers' homes from various organs of the state. However, tougher measures are also used. The Chinese anti-riot police are often used against protesters and, as is shown below, imprisonment is also a very commonly used way of oppressing workers who stand up for themselves, their colleagues and their rights.

FROM FACTORY TO PRISON

Dozens of independent labour activists and leaders jailed in previous years remained in prison in 2004. The following is a partial list. It includes activists, notably members of the Workers' Autonomous Federations (WAF), arrested in the wake of the Tiananmen Square massacre of June 4 1989, and the protests that followed. Most of those imprisoned at this time were sentenced to harsh prison terms for crimes such as 'counter-revolution' or 'hooliganism', neither of which exist in present Chinese criminal law but have been replaced by charges such as 'threatening the security of the State' and 'disturbing public order'.

Shao Liangshen (Liangchen) was sentenced to death in September 1989. His sentence has since been reduced and he is due for release in November 2007.

Hu Shigen, who helped establish the Free Labour Union of China (FLUC) and who was jointly indicted in 1993 with fifteen others, including Liu Jingsheng, on "counter-revolutionary" charges, received a 20 year sentence. He is reported to be suffering from chronic migraines, intestinal illness, malnutrition and a spine problem which could lead to paralysis if not treated. Several leaders and activists detained at the same time as Hu Shigen are believed to remain in detention.

Liu Zhihua and **Liu Jian**, of whom little is known and Kang Yuchun, sentenced to 17 years, seriously ill with heart problems.

Xiao Yunliang and **Yao Fuxin** were sentenced in May 2003 to four and seven years imprisonment respectively for their part in the mass protests in Liaoyang in March 2002. Since their imprisonment, the health of both men has been deteriorating rapidly.

Lu Wenbin, a special correspondent for the Textile Daily newspaper, arrested on 22 December 2001 for documenting a strike and interviewing workers at the Huainan Textile Factory in Dafeng.

Liao Shihua, sentenced in December 1999 to six years' imprisonment after organising a protest by workers of the Changsha Automobile Electrical Equipment Factory.

Hu Mingjun and **Wang Sen**, leading members of the Sichuan branch of the banned China Democracy Party (CDP), issued a statement in support of workers protesting over due to 12 months of unpaid wages. After calling for the establishment of independent trade unions, Hu and Wang were sentenced to 11 and 10 years imprisonment respectively.

Zhang Shanguang, a teacher from Hunan and a veteran independent labour activist and prisoner was sentenced to ten years in 1998 under charges of "threatening the security of the State" after attempting to set up an independent trade union. There have been repeated reports of the ill treatment and torture of Zhang.

Gao Hongming and his friends **Xu Yonghai** and **Zha Jianguo** established the China Free Workers Union. Shortly after then, Gao was detained and charged with "incitement to subvert state power" and sentenced to eight years' imprisonment. Zha was detained on 29 June 1999 and sentenced to 9 years' imprisonment under charges of "incitement to subvert state power".

Despite the Chinese authorities' efforts to keep workers quiet, labour disputes, individually and collectively, are on the rise. From 1995 to 2004, labour lawsuits in Shanghai increased sevenfold to more than 18,000 cases, according to government data. And a separate study by two Hong Kong university-based legal scholars shows that the number of labour disputes nationwide shot up five fold, from 33,000 cases involving 123,000 people in 1993 to 184,000 cases involving 608,000 people in 2002. The number of industrial disputes of all kinds has grown from about 10,000 in 1992 to some 300,000 a year.

Collective disputes are also rising rapidly. Most involve migrant rural workers from other parts of China. In 2004, there were 701 collective disputes in the Beijing area, up 35% on 2003, involving 7,899 workers, an increase of 29% on the previous year. Most of the collective disputes occurred in township and village enterprises located in the suburbs of the capital and were caused by the non-payment of wages and social insurance. Wage arrears in the construction industry remained especially serious and led to 252 collective disputes involving 3,043 rural migrant workers.^{xxxvii}

Leaping forward or backwards?

But the Chinese government is caught in a catch-22. As it oppresses basic freedoms of speech and organising, it fuels resentment and encourages public protests. Thus, the actions and policies it undertakes to suppress any attempt at public organising beyond its own area of control, only gives more encoura-

gement and motivation to the factors leading to such organising in the first place. The government is caught between giving space for democratic developments, which in its own understanding would undermine its authority, and brutally keeping such developments down but risking igniting anger, which can only be taken to the streets.

Han Dong Fang, a human rights activist who was imprisoned after the Tiananmen Square events in 1989, says that workers have learnt that they need to be tangible and boils it down to this: *“...sometimes, they know better than us, they know that if they block the streets for a day or two they will bother the local authorities and have more chances of getting a response from them. This only goes to show that the regime's reaction is very poor, as it gives people the impression that workers can only get what they want by blocking the streets, and not by going through legal channels. That's why more and more workers are using strike action, public demonstrations, as a means of protest.”*^{xxxviii}

Another observer points to the fact that this dilemma is inherent in China's form of totalitarian capitalism: *“Things turned violent because the dialogue channel between workers and managers was blocked. (...) The reliable structure of the old society that took care of people from birth to death is gone and now people must depend on themselves to survive. But the new society doesn't provide people with individual rights and legal ways to protect themselves, such as independent labour unions.”*^{xxxix}

So people turn to protests. A form of action that seems to be growing in frequency, scale and violence, underscoring the tensions of a society plagued by widespread corruption, social inequities and a lack of official channels to air grievances. The country may not be on a verge of another mass uprising, like the one which led to the government's bloody crackdown on protesters in Beijing in June 1989, since most of the incidents have remained isolated and short-lived and have been easily quelled by arresting a few instigators or appeasing protesters with a minimal handout – but the signs are clear. The deep-rooted problems continue to fuel popular resentment. More and more Chinese have a strong sense of social injustice. *“Before people felt like they could resolve their problems through the government. Now people no longer have any confidence in the government, so small cases turn into riots,”* says Li Qiang, a long-time Chinese labour activist.^{xxxx} All in all, China's courts received nearly four million petition cases last year and the National People's Congress had nearly 20,000 petitioners, one-third more than in 2002.

There is no consensus as to whether China is in midst of a great leap forward or a destructive fall backwards. International investors and private capitalists in China would tell you the former; China's workers, its forcibly displaced peasants and its imprisoned activists would tell you the latter. And faced with the media hype on China's economic development, they would ask you "whose miracle?"

China's people have been left off the country's economic fast-track and were never included in decisions on the direction of its economic transformation. They have been denied basic freedoms, and policies that benefit the few, rather than the majority, have been prioritised. Domestic and international capital has been given a free hand to exploit workers and the so-called socialist market economy has brought swift and massive discrepancies in wealth.

Better working conditions, fairer remuneration, and compliance with core labour standards – all the just demands of China's workers that to date have been denied – could be leverage for China's economic development. A way of enhancing sustainability, for the people to gain their rightful share of the country's growth, and to bring even more Chinese out of poverty. And they would bring human freedom and dignity to a population that has been denied these virtues for generations. The experience to them would be miraculous.

Caught in its state of distrust and suspicion, the Chinese government should realise that the only way it can avoid a self-imposed deadlock in which it is continuously fuelling social unrest, is by giving genuine priority to its people and its workers by enabling them to utilise their rights.

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