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China

# Will China shake the world?

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### **Private business is rapidly replacing the public sector in China. Rapid economic growth and corruption is leading to huge social tensions. Will China present a challenge to US economic and political domination in the coming decades?**

[[https://www.internationalviewpoint.org/IMG/jpg/chinese\\_trader.jpg](https://www.internationalviewpoint.org/IMG/jpg/chinese_trader.jpg)]

Chinese stock trader

In the decade following the 1989 uprising of the democratic movement and its subsequent repression, the Chinese government - led by the Chinese Communist Party (CCP) - has remained stable. Many commentators agree that it will remain so for the foreseeable future, and that the one party state will not face serious challenges. However, despite conjecture about stability, the social base of the CCP has already undergone profound change. These changes to a great extent contribute to China's current stability. In 1989 the CCP faced enormous challenges not only from tens of thousands of students, but from a mass of workers and farmers. Prior to 1989, 10 years of market reform were enough to enrich the bureaucracy and at the same time move enormous burdens onto workers and common citizens. A gulf, deeper than ever, was laid between the rulers and the ruled, which later led to the eruption of the democratic movement in Tiananmen Square.

After the crackdown, the CCP could no longer rely on the passive support of workers for reform, as had previously been the case. Instead, under Deng Xiaoping, the CCP leadership decided to further encourage the growth of a new class of entrepreneurs and professionals through the provision of increasing market opportunities. In the process, professionals, entrepreneurs and Party officials not only further enriched themselves, but also shifted China's social base from workers to a new elite. According to the latest official statistics, the private sector now accounts for 26.1 per cent of industrial production while in 1990 the figure was only 4.4 per cent. At the end of 2000, China had 1.76 million privately owned enterprises, employing 20.11 million workers. In addition, the private sector contributes one-third of China's GDP.

The government and the private sector have, therefore, developed and maintained a de-facto social partnership. Furthermore, a substantial number of intellectuals and students, who had already harboured suspicions towards workers in 1989, are now no longer keen to promote democracy in the aftermath of the crackdown. Instead they engage themselves in the pursuit of commercial success or personal career advancement. Most of them turn a deaf ear towards the growing numbers of unemployed state-owned enterprise (SOE) workers, viewing them as obstacles to modernisation or as simply those who fail to adjust to a new and better system. The free market and neo-liberal theory and practice dominate their intellectual thinking and outlook. Those who have better *guanxi* (personal connections by which to conduct business, attain more status or better jobs) can be easily absorbed into this new class of entrepreneurs. Even those whose *guanxi* is not so good can at least join the seemingly ever growing new middle class.

## **Apolitical era**

The 1990s were the most apolitical era that 'new' China has ever experienced. The CCP succeeds in winning the active support of entrepreneurs and the passive support, if not passive tolerance, of considerable number of intellectuals. The liberals who may regret the fact that the CCP maintains its grip over the state, nevertheless appreciate its determined efforts in dismantling the last trace of the command economy and its consequent harmonisation with the global market. This line of development culminated in the recent pronouncement by Jiang Zemin that the CCP should allow entrepreneurs to join the Communist Party, praising their contribution to 'the

development of productive forces in a socialist society'.

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At the same time, the further opening of the market since the early 1990s has boosted investment confidence both at home and abroad. Beijing has won the friendship of the west and transnational corporations (TNCs) despite its continued poor record in human rights. This is demonstrated by the huge amounts of foreign investment which have poured into China over the past decade. In the first half of the 90s, China experienced very high growth rates. In the later half of the decade economic growth began to slow down but still maintains an average of 7 per cent, which seems to help promote confidence and stability within the ruling party and discourage or dispel criticism from both inside and outside the country. Dissidents who have defected overseas admit that since China's economy is still growing and providing benefits to some sectors of the population, the one party state is still far from crisis. Or to put it another way, conditions in Chinese society are not ideal for the growth of any form of democratic movement.

The metamorphosis of the CCP has, however, not gone totally unchallenged. Between 1994 and 1998, high ranking 'orthodox leftists' issued a series of five documents attacking Jiang's pro-entrepreneur and pro-western policy. Currently it is widely reported that a counter attack launched against Jiang prompted him to close down two organs of the 'left'. His opponents have vowed to stop Jiang's attempt to officially revise the constitution of the CCP. Whether they will succeed remains to be seen, but it will not be easy given that their influence within the Party is small. The overwhelming majority of technocrats and bureaucrats - the backbone of the CCP - have benefited handsomely from the restoration of a capitalist market economy, and they certainly see no reason to reverse its course.

The support within the party for the 'leftists' comes mainly from old cadres and those who are responsible for overseeing 'ideological and political work', and as such reap little or no benefit from the reform. In some instances reform has led to the sackings of such cadres, and hence they nurse a grudge against Jiang's faction. However, within the Party this group's influence is shrinking. These disgruntled Party members will only pose a threat to Jiang if they forge coalitions with the disenchanting under and unemployed.

The restructuring of the economy has led to the bankruptcy of thousands of SOEs, and the loss of 30 million jobs. According to official figures, the number of protests and demonstrations by workers in 1998 was nine times that of 1993. The reasons for protests are varied, but it seems that in most of the cases they are not so much over being laid-off as such, but rather against non-payment of wages, pensions or unemployment benefits. Or they are over corruption and the rock-bottom price of privatisation. For instance, last year in Liaoning province, 30,000 miners fought the police against unscrupulous privatisation. However, partly because dissent carries a high price, and partly as a result of inexperience in forming linkages with other groups, workers' protests remain fragmented. It is perhaps only when protesting workers have a conscious political outlook that discontent will play a role on the political stage. For the time being the social crisis resulting from economic restructuring continues to develop, but at a constrained and slow pace.

However, this does not mean that challenges to the present leadership can only come from without. Powerful centrifugal forces have always been at work within the CCP. The pro-market reform has been so successful that today not only the SOEs, but also many government departments and public social services, are being subjected to profit incentives. For a long time even the army was involved in commercial undertakings (this was prohibited after Jiang instituted serious measures, but the ban has not been extended to all other government departments).

## Fierce competition

When all levels of officials involve themselves in profit making, it follows that fierce competition among the ruling

bureaucracy for attracting investment, for market share and for the commercialisation of resources will result. Major and minor conflicts among officials in different regions and at different levels are reported from time to time. It is common for provincial governments using administrative measures to stop the inflow of goods from other provinces. Conflicts over economic interests among different departments have been reported.

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Prior to the reforms, the disparity between the countryside and cities, and between coastal and inland regions, was narrowing; since the implementation of reform the situation has reversed. The reforms have had a deep impact too on the internal cohesion of the CCP. In rural areas, a central concern for county and village officials is over the discrepancy between urban wealth and rural poverty, and what has become a race for economic development. They also believe that since it is they rather than provincial and central governments who shoulder the burden of providing rural education, they thus should not be blamed by their superiors for being too harsh in taxing the rural population. [1] ] As to the western and central regional officials, they believe that the central government has favoured the coastal regions since reforms began. In 1997, five big western provinces expressed serious discontent towards the central government for preventing them from setting up the third stock market in China.

Widespread corruption and ruthless privatisation also contributes to the growing centrifugal forces within the CCP. Before the reforms, corruption was mainly confined to the theft of public property in the form of consumer goods. Then in the mid-1980s, officials began to profit by speculating in the market. Since the early 1990s, however, officials have been able to set up their own companies or prompt their friends and relatives to set up private companies to make money. One of the easiest methods to make money is to effect the transfer of public properties into their own companies. Prior to the reforms, a low ranking official could be bribed by the offer of a pack of cigarette. In recent years one may need millions of dollars to effect such a bribe. Such a degree of corruption greatly weakens the administrative capacity of the state. Even when a policy is good in itself, its implementation is often obstructed or twisted by the profit making incentives of the bureaucracy, resulting in chaos, mistakes and damage to people's lives. The lower level bureaucracy covers up all problems which arise by all means possible. It is common knowledge that all statistics in China are unreliable. For instance, trade balance figures for August 1998 recorded a US\$ 20 billion surplus. Strangely, the foreign currency reserve recorded an increase of less than US\$1 billion.

This anomaly not only reflects the seriousness of unreliable statistics but also illegal capital flight (unreliable statistics masking theft). Hence, it is common for problems to accumulate to a point of crisis and only then coming to the attention of the central government; by which time it is often too late. Moreover, corruption is the single most important issue that antagonises common people, and which has resulted in countless incidents of protests, strikes, and even riots. Faith in the CCP that it could resolve such problems is rapidly fading across many sectors of society. In March 1998, a rare scenario occurred: in the first session of the Ninth National People's Congress, 25.4 per cent of the deputies either abstained or voted against the report of the Supreme People's Court, and 44.7 per cent either abstained or voted against the report of the Supreme People's Procuratorate as a protest against their official record in fighting corruption.

Another factor that may affect the stability of the one party state is the economy. Since the latter half of the 90s, the economy is losing steam. The government reacted with a typically Keynesian policy of increasing government spending to stimulate demand. Increasing the fiscal debt may result in some positive effects on the economy, but in the long run more problems arise than are solved. Most importantly, market reforms have greatly decreased the percentage of government revenue in the economy. In 1978, government revenue accounted for 29.5 per cent of GDP. In 1999 the figure dropped by more than half to 13.3 per cent; a figure much lower than many other countries. This indicates that the regulatory power of the government has been shrinking rapidly. For its Keynesian policy to succeed, the government has to rely on borrowing, which in turn creates a mountain of debt. In the long term this may have disastrous implications.

## The economic situation

In the midst of a global slowdown (and recent analysis suggests a deeper crisis in the form of a worldwide recession), the Chinese economy still grows at 7-8 per cent per annum. It is possible in the short and medium term that one consequence of a global slowdown or recession may be an increased foreign capital inflow into China which will further strengthen the economy. Since 1979, the Chinese economy has exhibited a six-fold increase. Beginning from the mid-1990s, however, the growth rate has slowed. The rapid rise in investment in the early 1990s resulted in serious over production. In 1999 idle production capacity still accounts for 40 per cent of GDP, making competition and deflation more serious than ever. The government's response of implementing Keynesian policies has kept the economy growing at 8 per cent in 2000, nearly 1 per cent higher than in 1999. Although the state sector is shrinking quickly, it appears to a certain extent that it is being replaced by the growth of private enterprises. The CCP's current support of entrepreneurs, both domestic and foreign, strengthens business confidence and thus encourages more investment.

The problem, however, is that the growing economy is less a result of growing productivity and more the consequence of an increase in capital and labour input. In the period 1979-1990, the contribution of increased productivity to economic growth accounted for 42 per cent, while increases in capital and labour accounted for 37.7 per cent. However, between 1991 and 1995, the former figure dropped to 26 per cent, while the latter figure rose to 57 per cent. This figure alone should cast doubts on the sustainability of the current high growth rate.

What is more, China's enormous output is above all based on four things: debt, foreign capital, cheap labour and natural resources. Such dependence may be positive for the development of the economy in the short term, but in the long term it may work against sustained development.

## Soaring debt

To a considerable extent, the high growth rates of the past 20 years were sustained by higher and higher debt - public and private, and domestic and foreign. Foreign debt was non-existent prior to the onset of reforms in the early 1980s. However, by 1999 it stood at US\$151.8 billion, more or less the same size as Chinese foreign reserves. The ratio between foreign debt and GDP grew from 5.2 per cent in 1985 to 15.3 per cent in 1999. That is the official figure. However, the collapse of the Guangdong International Trade & Investment Company in 1998 revealed the existence of a hitherto invisible foreign debt, the exact extent of which no one is certain. More certain, however, is the fact that debt has to be repaid, no matter whether it is hidden or not, and regardless of project failure or success (as a matter of interest, many projects for which money has been borrowed fail).

When it comes to domestic public debt, the story is no better. Over a twenty year period beginning in 1981, domestic public debt rose from RMB4,870 million to more than RMB400 billion; that is, an 80-fold increase. The consequence of this is that China is now repaying foreign and domestic debt which is eating up an increasingly greater proportion of government revenue. The government is increasingly borrowing more money to repay old debt; a vicious cycle with potentially disastrous consequences. If we use international criteria for financial security rather than those of the Chinese government, which are as demonstrated problematic, then China's foreign debt may well have passed the point of crisis. With a budget deficit accounting for more than 3 per cent of GDP, the Chinese government is on track for a debt crisis in the long term.

The more a country borrows from abroad, the more it has to promote exports to earn foreign currency to pay back loans. This explains China's rapidly rising trade dependency, which now accounts for 35-40 per cent of GDP (a rare figure for a large country like China, and double the size of the United State's trade dependency figures). Chinese

exports especially rely upon Western and Japanese markets.

China is also increasingly dependent on foreign direct investment (FDI). For the last seven years, China has attracted more FDI than any other country except the United States. In the early 1990s, 20 per cent of FDI to East Asia (excluding Japan) went to China. However, in recent years the situation has reversed, with China now accounting for 80 per cent of all FDI in East Asia. As a result, competition to attract FDI between Asian countries has become more fierce. Between 1980 and 1999, China's GDP grew at 9.7 per cent annually, and it is estimated that of this figure the contribution of FDI accounted for 2.7 per cent. This means that China's growth is now to a considerable extent dependent on the West. If the global economic slowdown develops into recession, it is questionable that China's exports can maintain previous growth rates. In fact, exports have declined over the past few months. The inflow of FDI remains strong, but if the tide turns then prospects for China's economic performance are not good.

Numerous factors account for the high rate of FDI flowing into China, but essentially they all revolve around the creation of a progressively more friendly business environment. This includes fiscal concessions (such as a tax rate half that of SOEs, and guaranteed profits for TNCs), low rent, cheap natural resources, low wages, the absence of genuine trade unions, no-strike laws and so on. Even when laws exist that are favourable to workers, it is common for foreign and domestic private enterprises to simply ignore them, often in the full glare of official scrutiny.

In China's export processing zones, garment workers received wages less than their counterparts in Indonesia, and substantially lower than workers in similar jobs in Thailand. Furthermore, Chinese workers face perhaps greater odds if they want to organise so as to bargain for higher wages or better conditions. Low wages and the absence of independent trade unions greatly enhance China's attractiveness to foreign enterprises. Hence, in 1997, among the 845 export processing zones worldwide which employed 27 million workers, more than 60 per cent (that is, 18 million workers) were located in China. However, authoritarian labour management is the cause of an increasing number of disputes and riots. In the short term harsh measures will be effective in curbing social protests, but in the long run it is creating an atmosphere of grievance and unrest, if not outright social upheaval.

## Poverty, food security and market reform

At the turn of the century, the Chinese government announced that they had all but alleviated poverty. In 1978, there were 220 million Chinese classified as being poor. By 2000 the figure had dropped to 30 million. The publication of this latter figure is a tacit admission that the promise made in the mid-90s to lift all citizens out of poverty has never been kept. Nevertheless, if one is to believe the official figures, the achievement is impressive. The problem, however, is that the figure is not indisputable. First, the government sets the poverty line at RMB 635 per year per person; a figure regarded as too low by some critics. Second, although claiming to be a national criterion, the figure is not really implemented nationally. In other words, different levels of government adjust the poverty line according to their own specific situations. This practice opens the door to all kinds of judgements which are not always justifiable. According to the World Bank's suggested poverty line - a daily income of less than US\$ 1 - up to 22 per cent of China's population may be living in poverty.

This is not to deny that absolute poverty may have been considerably decreased. Not only is starvation now rare, but the vast rural population can now enjoy higher quality food. In the pre-reform era, many rural inhabitants had to be content with a diet consisting of a limited variety of grains of low nutritional value (such as Chinese sorghum). Now, however, many can afford wheat or rice, both of which are more nutritionally rich. The rapid development of the textile industry means that formerly poorly clothed farmers have greater access to better quality garments.

## Human poverty

However, it is not only absolute poverty that requires attention, but also human poverty (the lack of opportunity for education, leisure, cultural participation, and a fair and decent standard of living) and relative poverty (the unequal distribution of wealth). With regard to both these aspects the record is still poor and perhaps getting poorer. Today, even if a young, single peasant were able to provide basic financial support for an intended family, he will most likely be unable to find a wife. If he is not able to provide, in addition to food and clothing, a house, durable goods, and some savings for the education of his children, he will be passed over for richer farmers who possess a lot more.

If hardship drives peasants into the cities to find jobs, they once again face a limited pool of wealth. Inevitably finding their way into labouring jobs, they find there too that their share of the national income is shrinking. Before the reforms, China had one of the lowest Gini coefficients in the world, standing at 0.2 (the Gini coefficient measures income inequality). In 1998 the figure surpassed 0.46, suggesting that China now has a very unequal distribution of wealth. For instance, it is now estimated that less than 5 per cent of the population possess half of all savings; although some analysts suggest that as little as 1 per cent possesses half of all savings. On top of this unequal distribution, regional and urban-rural disparity has been growing steadily.

Most of China's poor are located in rural areas. The rural population accounts for 70 per cent of the total population, but consumes less than 40 per cent of all consumer goods. Moreover, among the poorest 500 counties, 90 per cent of them are located in central and western provinces. Eradicating poverty implies first and foremost solving the problems confronting peasants in these provinces, and especially modernising small-scale farming.

China possesses only 7 per cent of world's arable land, but has to feed 23 per cent of its population. For the time being, Chinese farmers are still able to succeed in doing so, due mainly to effective methods of small-scale cultivation. However, tied to small pieces of land, using mainly hand-made tools and small machines, such small-scale agricultural production can hardly be expected to continually meet China's growing food needs. At the same time, the potential for raising agricultural productivity is probably exhausted. Currently, farmers sell only 35 per cent of what they produce, indicating that they consume the rest and hence possess little to exchange for industrial and consumer goods. Even though many of them no longer suffer from malnutrition, life in rural China is still harsh. For instance, the so called 'three worries' faced by peasants are falling ill, price fluctuations, and tanpai (taxation, especially arbitrary taxation or extortion). Falling sick is a grave risk, not so much from a health perspective - though that is important too - but due to high medical fees and the loss of working days condemning them to absolute poverty again.

Between 1986-98, the central and provincial government paid Rmb110 billion and Rmb40 billion respectively into the poverty eradication fund. In recent years a greater emphasis is put on 'work for relief', rather than simply handing out money. According to official statistics, between 1985-95 work-for-relief recipients built 211,000 miles of road and 20 thousand bridges, and provided supplies of clean water for 40 million people. The dark side, however, is that a considerable portion of the fund has been diverted to other purposes. One source in China puts the proportion of diverted funds as high as 50-70 per cent.

While market reform has freed peasants from the command economy, it has also led to insecurity. Small-scale production is especially vulnerable in a fluctuating market. It is common to see that when prices go up, peasants will try to increase production. This of course leads to overproduction with a resultant fall in price with ruinous consequences. Peasants who rarely read newspapers or listen to the radio, can hardly be expected to be aware of global macro-economic trends.

## Proactive role

It is at this point that the government could play a more proactive role, by providing material support to peasants so that they could modernise the rural economy. It is true that from the CCP down, officials at all levels have been keen on promoting modernisation projects; ranging from commercial farming to industrial plants and so on (the so called township and village enterprises). However, even the official mass media admits that most of these projects fail, because few officials bother to consider project feasibility, and even fewer ever think of asking the consent of peasants (although it is they who will eventually pay the debt incurred or the tax by which projects will be funded). One county government ordered the building of seven glass-making factories after its leadership heard of their success elsewhere. All failed, leaving the villages concerned deep in debt. Leadership positions, however, remained intact.

Projects aimed at eradicating poverty and instituting modernisation could be tailored to meet specific situations faced by peasants, and directed at relieving problems brought about by macro-economic conditions. As such, making officials accountable to their constituencies, via democratic elections, is of utmost importance. Several years ago the CCP instituted direct elections of village committees, yet so far the results seems unsatisfactory.

All in all, despite the goodwill and effort of leaders, peasants continue to be marginalised in a booming economy. Income growth continues to fall, and has done so over four consecutive years between 1997-2000. Most do not earn enough money, thus exacerbating problems of demand and overproduction. China, like many developing countries, has left behind vast numbers of peasants to survive the best they can outside reformed economic systems.

Food security is paramount for a developing country, and this is particularly the case for China. Having a population of 1.3 billion, self sufficiency is especially important, because even if China has enough foreign currency to buy food, the world is incapable of supplying enough food for Chinese people. The world market is on average supplying 200 million tons of grain annually, an amount which can only satisfy the needs of less than 40 per cent of the Chinese population. An 80 per cent self-sufficiency rate may be considered enough for other countries, but not so for China. When China imported 25 million tons of grain - a figure larger than usual - in 1996, it immediately raised the world market price because its purchase accounted for more than 10 per cent of world market supply.

If China continues to increase grain imports, then it may mean disaster for smaller food importing countries. Indeed the aforementioned incident led to widespread discontent. Perhaps it is no accident that in that year the former Premier Li Peng announced that China would aim for a self sufficiency rate of 95 per cent, which meant its imports would remain at 5 per cent, or more or less 25 million tons. However, in recent years there has been mounting pressure for China to lower the 95 per cent level, from both within and without.

[<https://www.internationalviewpoint.org/IMG/gif/china3.gif>]

On one hand, scholars and officials are arguing for a 90 per cent or even lower rate, the rationale being that imported grain is cheaper. This view exhibits little regard for the livelihood of peasants. On the other hand, China's accession to the WTO implies that it needs to further open the grain market to western agribusiness. Since the productivity per working hour for grain production in the West is much higher than in China, it is hard to see how the small peasant household economy can compete with Western agribusiness.

## Urban unemployment

While rural absolute poverty may have decreased, in urban areas the picture is just the reverse. Back in 1996, it was reported that the urban poverty rate was 4.2 per cent, or 117 million people. Again, the central and western provinces

accounted for more than 80 per cent of urban poor. Towards the end of 1997, the official figure for urban poor rose to 150-180 million. Although there are no official figures for the period since 1997, the figure must have risen again due to the last three years witnessing a sharp increase in unemployment due to the partial collapse of SOEs. If so, then the problem of urban poverty may have spread to the eastern provinces since many former SOEs were concentrated in cities on the eastern seaboard. Thus, in 1999 Premier Zhu announced the plan for a minimum living standard protection scheme for the urban poor. This is a three-tier social protection scheme, specifying that the minimum financial amount for urban residents ranges from Rmb100-200 per month, adjustable according to the specific situation in different areas.

Over the past 10 years, the active urban working population has grown to 200 million, but its composition has changed greatly. The number of workers in SOEs shrank from 190 million in 1995 to 83 million in 2000. The number of workers in collective enterprises has halved since 1995, or a net decrease of 14 million. At the same time, workers in private enterprises increased nearly 10 million, and self-employed by 8 million. The official unemployment figure is 3.1 per cent, or 5.6 million, but a more realistic appreciation may range from between 10 to 15 per cent, or 18 to 30 million workers. Some sources even put the figure as high as 40 million.

Exacerbating this problem is that from the later half of 2001, the category of *xiagang* (literally 'off-duty') will be abolished. *Xiagang* is different from being outright unemployed. The former term implies that workers are laid-off and thus no longer working, but still maintain some contractual relationship with the enterprise and thus could expect to be paid a small portion of their original wages. The abolition of this category implies that from now on all *xiagang* workers will be technically unemployed and receive no wages however meagre they may have been. The implication of this move is that an additional 30 million workers (perhaps more) will join the unemployed. With an inadequate social safety net, even more workers can expect their lives to get harder.

In the early 90s, when they first considered downsizing SOEs to save the country from bankruptcy, the CCP leadership still regarded the building of a social safety net a precondition to any downsizing. Moreover, the Party initially believed that downsizing should include management (*cadres*) as well as workers. Events in recent years have proved otherwise. In 1996, the head of the Social Security Department admitted that among the 27 provinces and autonomous regions, only 7 had collected enough money for the unemployment benefit fund, and that more than half a million retired workers and a similar number of unemployed were not able to receive their pension or unemployment benefits. Towards the end of 1997, the total figure for the above two categories rose to 6.5 million, more than a six-fold increase compared to 1996. Even officials admitted that the real figure must have been larger.

## Real danger

China now faces the very real danger of the pension and unemployment funds going bankrupt. Furthermore, non-payment of mandatory contributions to the pension fund by many enterprises has left 25 provinces and cities in the red. The crisis is even more serious for the unemployment fund. What is more, even when the money for social security is collected, it may be diverted to other projects. Misappropriation of money destined for the funds is a regular occurrence. As a result many workers are now in absolute poverty, and have no money to consult doctors when they are sick and no money to send their children to school. Many can only eat meat once a week or even less. It is small wonder that there are so many protests by workers. The majority of them break out because of late payment or even non payment of wages, pensions or unemployment benefits, sometimes for months or even more than a year.

Some workers fired from SOEs or collective enterprises find jobs in the private sector, but there are far more unemployed workers than jobs created. For instance, there are more than 250 million unemployed in rural China. Among them, 100 million have left the countryside and moved to cities in search of jobs (the so called 'floating

population'). These rural migrant workers add to the already high numbers of urban unemployed. In reality, migrant workers now compete for jobs with urban workers, and in many instances the former are more likely to locate jobs in the private sector because they are willing to accept lower wages and to work in appalling conditions.

On average, rural migrants work 13 hours more than urban workers per week, but receive only half the wages. Therefore, unemployed state and collective workers find reemployment difficult, and when they do the jobs are often worse than before. To survive they are forced to eke out a living in the informal sector in jobs such as hawking or pedicab drivers. However, an oversupply of hawkers and pedicab drivers has forced wages down. That the number of working poor is expanding rapidly is beyond doubt.

Although the private sector is rapidly taking the place of the state or collective sector, conditions for workers have not improved. In fact the reverse is true; occupational safety and health (OSH) conditions appear to have deteriorated with the proliferation of private firms. In the past, China did not rank the enforcement of OSH issues highly. Nevertheless, the state sector was relatively responsive towards the need for safe working conditions. The booming private sector, however, has shown a callous disregard to the health and safety of workers. The restructuring of the economy has resulted in lower standards for many workers. Lower standards are not necessarily the result of revising laws and regulations, but rather the result of a shift in the mentality of bureaucrats; their enthusiasm for private enterprises and capital investment means they have little incentive to enforce the law.

This shift of mentality can best be demonstrated in a tragic industrial accident in July 2001. On July 17, a mine in Guangxi was flooded whilst hundreds of miners were working underground. Instead of deploying rescue teams, the owners of the mine worked with local officials to keep the incident quiet. Eventually, 77 bodies were recovered, though many believe that the true number of casualties may be in the hundreds.

The official media subsequently reported that there were no health and safety systems operational at the time of the accident, and that working conditions were simply appalling. What is more, the accident was not unexpected. In October last year, the mine suffered a partial collapse resulting in 28 deaths and 56 injuries.

As long ago as 1990, the State Labour Department listed the mine as unsafe. It was reported that China's coal production accounted for one fourth of the world's total output, but that its casualty records for coal miners accounted for four fifths of deaths in the industry.

[Part 2 of this article will appear in the next IV.](#)

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[1] Rural residents often complain about the high taxes exacted by rural officials. The CCP has criticised greedy county and village officials for the problem, but it is clear that the issue is not so simple. Rural officials are shouldering an increasing financial burden under the reforms, and although not immune from criticism are justified in the tenor of their complaints.