

Disposable Labour

# Chinese Labour under Economic Downturn

Sunday 15 February 2009, by [AU Loong-yu](#) (Date first published: 5 January 2009).

## Contents

- [Shifting Burden to Workers](#)
- [Rescue Package for the Rich](#)
- [A Model for Whom?](#)

The global financial crisis has begun to take its toll in China. China's exports have been declining rapidly, and in Guangdong province where the export processing zones house 20 million workers, tens of thousands of migrant workers have been sacked and have returned to their home villages. Nationally the tide of migrant workers returning home is within the range of four to nine million, according to different estimations. Millions more will return when the Chinese New Year holidays approach towards the end of January, and many of them will have to stay home after the holidays since the wave of plant closures will worsen by then.

## Shifting Burden to Workers

Thousands of migrant workers have seen their wages disappear along with their employers, and they have to fight to get at least a portion of it back. Road blockages and demonstrations are not rare scenes. When their actions are big enough, they are often able to force local authorities to pay some monies to workers to go back to their home villages. In doing so, the local authorities are not only meeting the workers' demand, but also serving their own benefits as a whole: sending the migrant workers back home is much safer than keeping a large reserve army of jobless poor in the cities. After the economic downturn set in, both the central and provincial governments hastily announced plans of economic incentives to encourage the dismissed migrant workers to go back to their home villages to farm their small plots of land or found small businesses. Although there is rhetoric of protecting jobs for migrant workers, either they are merely advice to companies to be 'prudent' in sacking their workforce, or active support for these companies by means such as providing credit to help them maintain liquidity. Easy credit may soften the impact of plant closures, but it has no direct bearing on employment levels. While widespread plant closures necessarily create mass unemployment, less serious plant closures do not necessarily mean proportionally less unemployment. The US government's bail-out plan for the banks has not made the latter more willing to lend, nor has it made them less inclined to sack their employees. We can expect a similar scenario in China. In a nutshell, the substance of the present rescue plan is for the employers, not the employees.

On top of this, that both central and local governments are practically helping the employers to shift the burden of the economic crisis to workers. The Ministry of Human Resources and Social Security declared a wage freeze on minimum wages on 17 November 'in order to help the firms to stand against the economic downturn'. [1] Soon the Guangdong Provincial ACFTU (All China Federation of Trade Unions) advised workers that they must stick together with their bosses to overcome the crisis

and as such, collective consultation over wages in those enterprises which face difficulties would be suspended. The *Guangzhou Daily* told workers that 'all parties involved are required to contribute to overcome the difficulties together'. [2]

The government declared a stimulus package of four trillion to achieve its target of *baoba*, or keeping the economic growth rate at 8%. The officially controlled media reassured the common people that achieving the target is paramount because it would help to keep the jobs.

The 15 November 2008 *Economist* guessed that China's growth next year would probably drop to less than 6% without any government help. Now with the stimulus package, business confidence may be boosted; the question is how effective it would be in keeping growth at 8%. Optimists may point to the facts that China does not have the problems of subprime mortgages and shadow banking; China's banks have become healthier since the government cleared billions of yuan of bad debt from the banks at the turn of the century, with non-performing loans having dropped from 40-50% of their assets to the present 6%. On top of that, both household debt and public debt are small in proportion to GDP and much smaller than most countries. [3] Pessimists, on the other hand, keep reminding their readers that since China's foreign trade as a proportion to GDP now reaches 70%, which is unusually high for a big country, and since so much investment is export-oriented, China's economy will not maintain the 8% growth even with the government stimulus package.

### **Rescue Package for the Rich, Jobless Growth for the People**

However, even if the stimulus package eventually keeps the growth rate at 8% in the coming year, it has little bearing on jobs creation. It is because China's growth has been continuing for a long time, to a great extent without job growth. The ILO has done a study in 2005 on the relationship between economic growth and jobs creation, and found out that in the period of 1990-2002, an average 9.3% growth only brings about 0.8% of employment growth, and for manufacturing jobs it is negative. No wonder the high growth rate of 8% is accompanied by high unemployment rate. The current official rate of 4% is generally considered unreliable. According to the Chinese Academy of Social Science the actual rate is as high as 9.4%. [4] Again, this is an underestimation, because it does not count those migrant workers who have returned to their home villages. Under the *hukou* (household registration) system, even when rural migrants work for a dozen years in cities they are still considered aliens and as such are denied basic social rights which normal urban dwellers are entitled to, such as formal work with full social security, education for their children, subsidized medical care etc.

What is more outrageous is that while the unemployment benefit fund has accumulated a vast sum of money amounting to 120 billion yuan, local governments have little incentive in handing out assistance to the unemployed. No full figure is given but it was reported that in the case of Guangzhou it has accumulated 8.5 billion of yuan of unemployment benefit fund in September 2008 but it only handed out 0.3-0.5 billion of yuan to those unemployed. When asked why, the official responded that 'the Central government had not sent us directives on how to deal with this'. [5] Most rural migrant workers are excluded from this fund since they are not considered urban dwellers, but only *nongmingong*, or literally 'peasant workers'.

Not only does economic growth have little to do with jobs creation, it has little to do with wage growth as well. According to a World Bank report, wages in China as a share of GDP declined from 53% in 1998 to 41.4% in 2005, as opposed to 57% in the US. [6] The law on minimum wages has done little to stop the decline, simply because it is so low that it only equates to little more than 30% of average wages, whereas in Thailand and US they are 50%.

The implication of our discussion of jobs and wages is that, even if the 8% growth rate is maintained in this downturn, thanks to the rescue plan, it probably will continue to have difficulties in generating enough jobs. And if the growth rate drops to below 8%, it immediately will mean more serious joblessness and declining wages despite the stimulus package. It is especially so when we look at the main content of the package itself. Despite the rhetoric of creating jobs and promoting people's livelihood, the package delivers little resources to directly raise the share of wages (including social wages) to a reasonable level. It continues to ignore calls for reform on social security which includes free medical care and education from high school upward, a more effective unemployment benefit system and pension fund with a greater contribution from the government etc. Introducing a more comprehensive social security may, it is argued, provide a sense of security to people and acts as an incentive for them to spend money rather than saving it. According to Newsweek, only one percent of the total stimulus spending is pegged for health care, culture and education. Huang Ming, a Cornell professor who teaches at Beijing's Cheung Kong Graduate School of Business, says, 'It's in the interest of the government to develop the social safety net fast. It will stimulate consumption. [Chinese] save because they are frightened of getting sick.' [7] China's saving rate is as high as 46%, as opposed to zero in US, and it becomes counter-productive in an economic downturn: less money goes to consumption. However there is little indication that the government is going to adhere to the welfare state discourse. Much of the 4 trillion yuan is spent on infrastructure. Though it creates jobs, by its capital-intensive nature it is not going to create as many jobs as those lost in the export-oriented manufacturing industry. Moreover, building roads and railways does not necessarily kick start a slowing economy if investors are not confident that their products will be sold, and they can not have much confidence now when unemployment is rising.

With neither transparency nor democratic control, it is obvious that when the government hands out the rescue money it is not going to do it in an impartial way. Even the censored press finds it necessary to warn against corruption. The *Legal Daily* says that the package is going to 'bring about a fierce competition between provincial governments for projects', and 'behind these big projects there are always big corruption.' [8] A part of the package is for reconstruction for the Sichuan region where an earthquake devastated one of its counties, Wenchuan. Since May there has been 40 billion yuan of donations but now when winter has already arrived there are still 100,000 victims, among them many children, who do not even have a pair of winter shoes. [9] It reminds us one thing again: the package will first and foremost benefit the power elite.

### **A Model for Whom?**

Curiously enough, there are people who see China as a model for developing countries or even working people and applaud the rise of China as a model for alternative development to neoliberalism. Due to limited space we are not going to explore this vast subject. We only intend to point out that nearly in every sense China is simply following the course of Korea: an authoritarian regime which actively supports rapid accumulation and export drive at the expenses of working people by denying the latter basic civil and labour rights. [10]

We have mentioned the steady decline of wages as a share of GDP. Now we would like to discuss the other side of the same coin: profit as a share of GDP has risen dramatically in the same period. A Chinese scholar named Wang Lianli, wrote that in manufacturing the proportion of wages to profit rose from 1:3.1 in 1990 to 1:7.6 in 2005. [11] Apart from spending extravagantly, the newly rich either invest or save their money, hence the exceedingly high saving rate and investment rate. For decades the share of investment in China's GDP has exceeded 40%, which is one time higher than US and is top among the major Asian countries, including Korea when she was at the height of industrialization. [12] However the forces of capitalist development cannot promote the polarization

of rich and poor without, at the same time, creating obstacles for its further development. High profit squeezes wages, further creating long-term decline of private consumption. Private consumption as a percent of GDP has declined from 47% to 36% between 1992 and 2006, whereas the figure in South Korea, India, Britain, Australia and Japan was over 50%. [13] The World Bank reported that much of the decline of private consumption in China can be explained by the decline of wages as a share of GDP. Thus, China's rapid accumulation, bought at the prices of brutal exploitation of workers and farmers, in turn creates severe imbalances in consumption and investment, or more precisely, under-consumption and over-investment, leaving productive capacity idle, and in turn causing increasing reliance on exports to pay for the investment. Now with the US plunged into recession, it also spells the end of the China model.

The government has been aware of the weakness of its growth model before the US crisis set in. In April 2008 President Hu Jintao spoke of the need to change the mode of development from export-led growth to more emphasis on domestic-led growth by expanding domestic demand. However, no growth model can change without some restructuring, and restructuring itself is not going to be painless. The only question is who is going to bear the pain? As always, the question is to be resolved by contest between different social groups, either through institutional channels or through social actions. In a country where basic civil and labour rights are absent, the relationship of forces necessarily favors the strong (the bureaucracy and the entrepreneurs) in the most extreme term, and it is inevitable that working people, especially the migrant workers, are going to bear the main burden of economic restructuring. The 150 million rural migrants are just disposable labour. When business is good they are called in to work in sweatshops 12 hours a day, and even denied the right to resign when they prefer to go back to their home villages rather than to endure slaves like working conditions. [14] When business turns bad, they are told to go home and till their miserable piece of land. To some extent the migrant workers, as second class citizens, are quite similar to women as a second sex under capitalism: the last hired and first fired, in an economic crisis. In the light of these fresh experiences during the crisis, it is doubly unconvincing to argue that China provides an alternative model for working people.

One must come to the understanding that what we are witnessing is not only regular business cycle as we have in the past 20 years. It is a crisis at the core of China's growth model, therefore it is not going to be only an economic crisis but also a social crisis. Similar to the case of Korea, when the US led globalization runs into trouble, China necessarily faces her own crisis as well. This is not suggesting that China necessarily goes through an economic crisis as serious as the US, or vice versa; the subject is too broad for a discussion here. What concerns us is that it looks likely that even with a moderate downturn it is going to have grave consequences for working people, especially so for rural migrant workers. However, there is a new element which we must take account of. Workers today are far more aware of their rights than they were ten years back. The biggest fruit of their spontaneous strikes in the past decade is not only economic benefits, but practically a breakdown of the ban on strikes. Strikes have become so common that the ban was made ineffective, and the local officials have to adapt themselves to this growing resistance. Organizing is still exceptionally difficult, but anyway in the coming economic downturn the ever greedier and more corrupted elite will have to face a working people, or at least some sections of it, which have become more prepared to resist attack on them.

---

**P.S.**

\* This article has been published by Asian Labour Update, an AMRC publication.

---

## Footnotes

- [1] It was presented in a more ambiguous way as 'temporary suspension of readjustment of minimum wages', and 'suspending readjustment' can either means suspension of adjusting up or adjusting down, but judging from the main content of the article it must have meant the former.
- [2] *Guangzhou Daily*, 19 November 2008.
- [3] *Economist*, 15 November 2008.
- [4] [<http://www.21cbh.com/Content.asp?NewsId=58091>]
- [5] [<http://www.21cbh.com/Content.asp?NewsId=57844>]
- [6] *China Economy Quarterly Update*, Feb 2007, World Bank Beijing Office, p.6.
- [7] <http://www.newsweek.com/id/174524>
- [8] <http://legaldaily.com.cn/2007shyf/2...>
- [9] *Ming Pao*, 12 December 2008.
- [10] Except that Korea has been hostile to foreign capital investment all through her industrialization period, which is in glaring contrast to China's experience.
- [11] *Tigao laodong baochou, zheli yu chuci fenpei* (Raise the compensation of labour, focus on initial distribution), by Wang Lianli, Xianggang Chuanzhen (Hong Kong Fax), published by research department of Citic Pacific, No. 2007-90, p.8.
- [12] *Rebalancing China's Economy*, He and Kuijs, World Bank China Research paper, no. 7.
- [13] *The Economists*, 'A Workers' Manifesto for China', 11 October 2007.
- [14] Those who are more outspoken and who can afford to consult 'bare-foot' lawyers (who are self taught people with no legal rights to practice laws) will ask the latter to write complain letter for them to make the employers letting them go and paying their wages before they leave. Those less outspoken will be forced to stay. The laws do not allow the employers to do this but when workers do not enjoy basic civil liberties it is common that labor laws are not enforced. On the other hand, in the current economic downturn, workers are just dismissed before their contracts expire, again in violation of the labor laws.