

China in 2002
A preliminary report on the state and civil society in China

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On 26th May, 2004, contract workers of the China Construction Bank protested against unequal pay and threats of job losses. However, the news was censored. China's accession to WTO results in tremendous restructuring in the banking industry, and the China Construction Bank alone may have to shed 100,000 of its workforce .

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Political Situation

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. In the retail sale of consumer goods, the private figure may be even higher, because it accounted for 37% of total retail sale of consumer goods back in 1997. 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. 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 neo-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'. 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. Their logical conclusion is that 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 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 will discontent 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 (these was prohibited after Jiang instituted serious measures, but the ban has not been extended to all other government departments). 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. 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, and 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 refusing them to set 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

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.

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.

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 RMB 4,870 million to more than RMB 400 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 is 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 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 and Food security under 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 criteria, 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.

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. 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. 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. 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 and the new poor

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, a net decrease of 26 million. 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 abolishment 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. 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 instance 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 has 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. This strategy included threats to the lives of reporters and the families of drowned workers who sought to find the truth behind the cover up. 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.

Social services under the impact of market reform

The lack of opportunities for education has always been an important factor in understanding poverty. Among the rural poor in China, illiterate or semi-illiterate peoples account for an exceptionally high proportion. Unfortunately the Chinese government has withdrawn from providing universal educational opportunities to its citizens. Although the Chinese economy has grown over 600 per cent since 1979, the share of expenditure on education relative to GDP has grown little. Between 1979 to

1992, the average annual expenditure on education accounted for 2.88 per cent, which is far lower than the 4 per cent average of many developing countries. The figure has further been lowered to 2.49 per cent in 1997. What money there is for education is syphoned off into urban areas at the expense of rural, and post-secondary education eats up a disproportionately large part of the fund. Rural education expenses are largely met by local towns and villages. However, many of them are simply too poor to build and maintain school buildings and pay teachers adequate salaries. Currently, there are 50,000 village and township governments in debt to the tune of RMB 200 billion. And although official enrolment rates for primary schools is as high as 98.9 per cent, the drop out rate is also high. A report by the World Bank in 1999 stated that 30 million children were not enrolled at all, of which two thirds were girls. A survey indicated that, among 125 villages and towns, the wages for over 60 per cent of teachers were not paid on time. Many schools survive by forcing pupils to work with little or no pay. In March 2001, an explosion in a Jiangxi primary school killed 50 students as they were assembling firecrackers.

In urban areas the situation is also deteriorating. College students now have to pay large sums of money to enrol, a far cry from the situation 15 years ago. Free elementary education has evaporated in many cities. Due to a lack of funding, and also an eagerness to get rich, many schools now engage in commercial activities ranging from renting out office space to direct involvement in business themselves. These conditions have given rise to a new type of school; so called 'sparrow schools', thus named for their size. In a primary school in Guangzhou, one of China's wealthiest cities, 820 students crowd into a small school with a total usable area of 1,700 square metres. The school can only afford one small basketball court in which the children can play. This is a luxury compared to several other schools nearby, which possess no play area and allow their students to do exercises on the footpath. According to the law, property developers should build one primary and one secondary school for every 100,000 people housed. However, in the course of redeveloping old areas, it is common for developers to simply ignore these laws. Hence the 'sparrow schools'.

As to the children of rural migrant workers, their right to education is simply denied. Urban officials do this on the grounds that they are rural residents under the *hukou* system (or household registration system). This means that rural migrants are not officially regarded as urban residents even though they may have worked and lived in a city for years. When Li Sumei, a migrant to Beijing from Henan province, founded the Xingzhi Migrant School in 1994, there were nine pupils. It has since grown to accommodate 2,000. Yet the city government still refuses to grant any school educating migrant children an official school permit, therefore leaving them at the mercy of officials. In this environment Xingzhi School has been forced to relocate five times in seven years. The flip side to this coin is that entrepreneurs and high-ranking officials are able to send their children to elite private schools or send them abroad.

In the health sector, while the rural population continues to be excluded from free health care, the free or at least partially free health care system which the urban working population once enjoyed is now largely gone or being privatised. During the past 10 years, 'user pay' has become the guiding principle, mainly on the grounds that the old health care system was thought to encourage wastage of valuable medicine

and resources. Now employees have to contribute 2 per cent of their wages – which are already very low – and employers 6 per cent to workers' personal medical accounts. Most medical expenses are to be funded by this account. In the past there was no ceiling for an employee's medical expenses, but under the new system a limit equal to an average wage for four years now applies.

The emphasis on profit and the discipline of the market has had a profound impact on medical institutions. It is now common for hospitals to charge patients who are covered by the social medical fund higher fees. Logic suggests that those who are not covered by the fund enjoy lower fees, but the reality is that many who are not covered simply cannot afford to visit hospital.

The government devotes around 2.4 per cent of its budget to national health care, which is by any standard far too little. Dealing with the spread of AIDS alone will consume a large proportion of that amount. According to official figures, there are now 600,000 HIV carriers, but some scholars put the figure at one million or more. A recent story which emerged from Xincui County in Henan vividly demonstrates the scale of the problem. In what can only be described as a man-made disaster, some villages in Xincui County have registered HIV infection rates as high as 60 per cent. Almost all HIV carriers in the region contracted the virus by supplying blood for money to local blood banks. Local authorities had collaborated with the 'heads of blood businesses' to purchase blood from peasants, but in the process had used unclean needles repeatedly. Under these conditions the virus spread out of control. Impoverished peasants repeatedly sold blood, seeing it as a quick and easy way to earn money. Some journalists now put the figure for HIV carriers in Henan alone at around 700,000. The figure is speculative, but it seems clear that the central government is incapable of grasping the seriousness of the issue. As with the coal mining tragedy, local authorities tried by all means to cover up reports of contaminated needles thus exacerbating the problem.

China's accession to the WTO may further negatively affect the health of Chinese people. For years, 97 per cent of domestic medicine production was based on copying foreign pharmaceutical companies without paying royalties. This practice will be prohibited after the accession to the WTO, which will drive up prices for medicine substantially, making them unaffordable to many poor people. In addition, traditional Chinese herbs and medicine will also be in jeopardy in the face of increased imports of foreign-made Chinese traditional medicine. Although the cultural legacy of Chinese people, Chinese-made traditional medicine is not competitive if compared to Japanese and Korean products. The latter countries hold the lion's share of the global Chinese traditional medicine market, while China accounts for less than 7 per cent. After China's accession to the WTO it is probable that some domestic pharmaceutical companies will go bankrupt, and in the long run put Chinese patients at the mercy of TNCs.

The right to medical care should come before the profits of TNCs. As such it is the duty of public authorities to regulate the health care market in favour of the most vulnerable sectors in society.

Environmental destruction and the drive for modernisation

China is huge in terms of its territory and population, and this fact alone implies the importance of it fighting against global environmental destruction. China is now the greatest coal burning country in the world, and as a result accounts for 15.1 per cent of the world's total sulphur dioxide and 9.6 per cent of carbon dioxide emissions. China's awareness of environmental protection is growing, and it has endorsed many international conventions. The ban on logging and the summer ban on fishing in the South China Sea are recent efforts by the government in promoting sustainable development.

On the other hand, the drive for modernisation through the implementation of a self-regulating market poses new challenges to the environment. The elite appears to have uncritically accepted as a model for development the consumerism of the West. The decision to promote the increase in ownership of private cars is one of the manifestations of such a mentality. Again, it is impossible for China to copy the Western model in this aspect. If China's auto industry could deliver one car to every household, a level of ownership still lower than the US, it would lead to an environmental disaster. One may argue that this prospect is remote, but one must not lose sight of the fact that China's development has led to widespread and massive consumerism over a relatively short period, and the damage to the environment is reaching the point of no repair. Between the 1920s to 1970s the Changjiang (Yangtze River) flooded every six years. From the 1980s onward it flooded every two or three years and on a much larger scale. The 1998 flood led to 3,656 deaths and Rmb300 billion in damage. Premier Zhu admitted the main reason for flooding was over-logging along the big river. Between 1949-1979, forest coverage was already decreasing. Since the reforms, however, the situation has worsened. Experts reported that China requires at least 35 to 40 per cent forest coverage in order to retain water in the soil. China's current forest coverage has declined to a mere 14 per cent. In 40 years, the upper reaches of the Changjiang have witnessed an increase of soil erosion from 1.3 billion tons of soil annually to 1.57 billion. The Changjiang is rapidly becoming the second Huanghe (Yellow River). In many parts of the river, dikes are now as high as 13 metres so as to accommodate the ever rising riverbed. In the past, the scene of the so called 'hanging river' only appeared along the Huanghe, but now it is spreading along the Changjiang. Due to corruption, the dikes are of bad quality and often collapse in flooding, thus compounding the seriousness of any flooding. Premier Zhu refers these dikes as '*doufu* dregs projects'.²

A logging ban was implemented in 1999, and a major portion of the one million woodcutters were reassigned to tree planting instead. In theory this was a good idea, but in reality local governments had little incentive to implement the ban. A rise in wood prices resulted in even less incentive, and in fact encouraged local authorities to unite with private business to engage in illegal but profitable logging.

Lacking an independent media and systems of accountability rooted in democratic

² Zhu used the term '*Doufu* dregs project' to refer to the similarity between the dikes and *doufu* dregs; superficially both look good, but closer inspection reveals the poor quality of the product in relation to the superior original.

principles, the central government simply does not know if and how its policies are implemented at the grass roots level. Moreover, simply banning logging in the context of an essentially normative model of modernisation does not address fundamental issues relating to sustainable development. For example, demand for wood is still growing, partly because China now consumes at levels approaching consumption in developed countries. The use of disposable chopsticks, for instance, is a clear example.

As for the Huanghe, soil erosion now leads to the interruption of water flow for longer and longer distances. The phenomenon began in the 1970s, and by the 1990s the stretch of the river through which water does not flow extended from 100-200 km to 300-600 km. In the 1970s it occurred in April or May, but now happens as early as January or February.

Rapid modernisation has created impressive material wealth, but at the expense of the environment. In 1995, Chinese emissions of greenhouse gases came second only to the US, and in 1999 topped the list. The government decided, beginning from 2000, to ban the production of leaded gasoline. This is a step forward, but still too small compared to the needs of protecting the environment. For the same unit of output, China expends 3 to 10 times more energy than developed countries. The more China produces, the more critical its impact on global warming. In China, as elsewhere, cost cutting firms in a competitive market have few incentives to install environmentally protective devices. Instead they attempt to shift the costs of such technology to society and the biosphere. It is at this point that public authorities often intervene, with new laws, monitoring, and hefty fines for despoliation and its after effects. However, this is an up-hill struggle even for the most committed governments. In China, because of widespread corruption and the semi-paralysis of many local authorities which has resulted, many environmental laws are simply ignored and all kinds of industrial pollution continues wreak havoc on the environment.

The new dimension of gender inequality

Compared to many developing countries, China's women enjoy higher status in certain respects. While the ratio for illiteracy among women between 15-24 is as high as 21-50 per cent in many developing countries, in China the figure is 13 per cent. Rates of labour participation among women between 15-64 is as high as 80 per cent. The Chinese government has also endorsed a series of international conventions aimed at protecting women's rights, like the Convention on the Elimination of Discrimination Against Women and the Convention on Equal Pay for Equal Work and so on.

However women remain the second sex in many regards, and market reforms have further marginalised women in certain areas. Between 1990-1995, women accounted for 70 per cent of the illiterate population, but only constituted 35 per cent of those who had senior college or above education. Urban working women's wages were 77 per cent of men and rural women's income was 81 per cent of males. The difference in income owes less to unequal pay for equal work, and more to segregation of jobs between genders. For instance, women account for only 45 per cent of doctors, 30 per cent of college and secondary schools teachers, but make up 96 per cent of nurses.

Rural women continue to suffer from a lack of medical care which poses a threat to their own lives and that of their children's. In 1995, 60 per cent of rural women gave birth at home, and thus the death of women in childbirth was several times higher than in cities. In an impoverished province like Guangxi, the mortality rate of women giving birth is 10 times higher than Beijing.

Rural women also remain marginalised in education. When households cannot afford to send all children to school, it is usually boys who go at the expense of girls. Hence, 84 per cent of illiterate women live in rural areas. Women's opportunities for development are also significantly less than men. While some rural men can leave agriculture via entering universities or serving in the army, these routes are not so accessible to rural women. When husbands migrate to urban areas seeking jobs, it is the women who are left behind to till the land and look after the elders and youngsters. Since such work generates much less cash than working in cities, women continue to be viewed as economically less important. It is true that young rural women also migrate in great numbers to the cities, but it seems that women migrants are lower in proportion to their male counterparts. Between 1985 and 1990, among the 35.3 million rural migrants, 56 per cent were men. Female migrants are substantially better educated than non-migrants, as is also the case for male migrants, implying a rural brain-drain to cities. However, even in the cities women migrants are more restricted in relation to attaining residence. Under the *hukou* system, children will inherit their rural identity from their mother rather than their father. It follows that while a rural male migrant may be able to attain an urban residence permit through marrying an urban woman, a rural women migrant will find it difficult to do likewise. This is largely due to urban men resisting marriage to a woman to whom his children would receive the status of rural *hukou*. Thus even when millions of women migrate to cities to work, their chances of remaining permanently in cities is significantly lower, so returning to the countryside for marriage is the only option.

Another aspect of female migration of those from poor villages migrating to more prosperous rural regions through marriage. For many poor and under-educated women, this remains the only viable route to improve their livelihood. 85 per cent of females who migrate due to marriage work in agriculture, which implies that they occupy an inferior position if compared to the first type of female migrant. Very often they have to be content with marrying rural men who are much older and poorer than their fellow villagers. In many cases such unions are arranged simply for money, which in turn reinforces the commodification of women and subjects them to all kinds of maltreatment.

Urban women workers have seen their welfare provisions disappear largely as a result of the restructuring of the economy. In 1996, women accounted for 37 per cent of urban workers but accounted for 60 per cent of *xiagang*, implying that when downsizing occurs it is women who are the chief victims. In the past, women workers in SOEs enjoyed paid leave during menstruation, maternity and menopause. These benefits have in the main evaporated in the face of SOEs maximising profit in ways similar to private companies. Women's ability to bear children becomes a burden to these competitive enterprises. In 1997, the All China Federation of Trade Unions conducted a survey of 660 SOEs, in which 90 per cent of managers did not want to

hire women due to the cost of paid leave for them. Even government departments openly discriminate against women by refusing to hire women or putting a limit on numbers hired. It is no wonder that the re-employment rate for unemployed women workers is 35.7 per cent lower than men.

Civil society, the market and the state

It is a widely accepted thesis that the marketisation of a former command economy will bring about the growth of civil society. In China's case the situation proved to be much more complex and contradictory. It depends, of course, how one defines civil society. If we define civil society merely within the context of a state-market dichotomy, then one may say that civil society exists in China. The once all-powerful state is now giving up much of its economic power over resources and factors of production to domestic and foreign firms. The command economy was dismantled to give way to a self-regulating market. It is true that there still exist numerous governmental interventions, sometimes totally unjustified, in this national market. Nevertheless, the prices of the absolute majority of products and consumers goods fluctuate according to supply and demand. Furthermore, a new class of entrepreneurs enjoys political, economic and social privileges which were once the privilege of high officials only.

However, if we regard the growth of the so called 'third sector' (i.e., organisations which are neither subordinate to the state nor are private firms) as something essential to our concept of civil society, then our view of civil society will be markedly different. For instance, can we really say that civil society exists in China if no truly non-government organisations (NGOs) exist? Since the 1990s China has opened its markets at an ever increasing rate, but in the wake of such action have followed more restrictive laws against NGOs. After the crackdown in 1989, the state council approved a new regulation on registration and management of social organisations, which required every social organisation to affiliate with a supervisory unit. In 1998, a new regulation was implemented with more restrictive details. For example, only one organisation in any particular sphere of activity may register at each administrative level. Moreover, initial capital of Rmb100,000 for national organisations and Rmb30,000 for lower level organisations are required. The notion that an opening of the market will inherently bring about the development of civil society, and along with it the liberty to associate and express itself, simply does not hold water. Rather, the fact is that the opening of a capitalist market brings about the development of an entrepreneurs' civil society at the expense of a civil society of the grass roots. Without democratically reforming the state, it is hard to imagine that political liberty will arise automatically.

The right to be heard is a necessary condition for any balanced growth of civil society. However, the Chinese government is particularly restrictive towards the right to free association. All 'mass organisations' are required to accept the 'leadership of the party', from trade unions to religious organisations. The suppression over *Falungong*, for example, reveals the degree of government intolerance. Peasants are particularly discriminated in this respect. For instance, there are national and local organisations – legal and officially endorsed – for students, workers, youth, women, writers and so forth. However, there is not a single officially sanctioned organisation for peasants.

Although the CCP declares itself to be representing peasants and workers, and that the CCP came to power thanks mainly to a peasant army, since 1949 peasants have been sacrificed at the altar of urban development. Therefore, even though there was an association for poor and middle income peasants before the Cultural Revolution, it was never able to acquire the status which the national trade union, for instance, enjoys. During the Cultural Revolution this association was disbanded along with many others. Afterwards all official 'mass organisations' were allowed to function again except the peasant association. Without official representation, albeit paternalistically dominated, it is no wonder that peasants are still regarded as second class citizens.

Still, it is probably true that the eagerness to be heard only grows stronger following profound economic restructuring and redistribution of national income. Both the new rich and the new poor demand a hearing. Therefore, despite the repression of the state, legal or semi-legal NGOs have mushroomed over the past 10 years. One way to set up an NGO is to create a second-level organisations and then attach oneself to a registered social organisation or university. Another way is to register as a business organisation. These methods are of course not always accessible to common people, so a third way has been developed. That is, people form informal groups like networks, salons and clubs. These legal or semi-legal ways to form NGOs have many defects, and in no way could they substitute the need to enjoy full right of association. But nevertheless, for the moment they help to promote a limited development of the third sector.

Among the rural population, there are already 100,000 local farming groups organised by produce farmed, such as the orchid-grower's association of Shaoxing in Zhejiang province, and the grape-growers association in Shandong province. Some of these have linked up to lobby for changes to existing policy. China's entry to the WTO may further fuel the desire amongst peasants to form organisations to protect themselves from foreign competition. Another incentive for organising is to protect members from corruption. However, sometimes such efforts are met with state violence. For instance, the Three Gorges project will displace 2 million peasants in the region. For years, ever since the project started, hundreds of thousands of peasant households have been forced to migrate, while billions of dollars which were supposed to compensate them has been pocketed by officials, provoking widespread discontent and efforts in organising to have a voice. However, when villagers from Yunyang County sent five representatives to the authority to voice their grievances they were sent to jail and tortured.

Workers' informal organisations are also growing. In 1999, it was reported that there were 30 informal workers' organisations in Beijing alone, a 23 per cent increase compared to 1998. In the south, there has been a rise in informal migrant workers' organisations. One of the favourite forms is organising along *tongxiang* (referring to fellow villagers or those heralding from the same provinces), where members speak the same dialects and share familiar cultural forms. There have been efforts to organise independent trade unions, but they have met with serious repression once exposed or detected

Serious efforts have been made by people from all walks of lives to develop many

kinds of NGOs, from simple mutual help societies to organising calls for reform. These efforts can no longer be stamped out by force. If the government maintains its policy of intolerance towards the growth of organising initiatives from below, it may only encourage confrontation and violence, thus upsetting the very stability which they value so highly.

China and the world

For some, China is developing into a major power and is expected during the next twenty years to pose a threat to US hegemony. For others, China will disintegrate in decade. No matter which forecast comes true, China will still shake the world, given its huge population and vast territory. If the first forecast is true, then it may sharpen contradictions between China, the US, Taiwan, and Japan, reinforcing the arms race and the possibility of war. If, however, the second forecast comes true, then it will spell disaster to the whole of Asia if not the world. The number of illegal migrants fleeing from a disintegrating China will be enough to make one aware of the seriousness of the problem.

There is, of course, a third possibility; namely, that China continues to remain more or less the same, and that dramatic events will not occur in the foreseeable future. Even in this case there is no reason to be indifferent to the course which China is undertaking. We must continue our effort in monitoring the course of reform, because what characterises China's specificity is not only its volatility, but also the crisis resulting from reforms. Even at the current pace, the environmental destruction, the number of people living in poverty, the crisis in health, the spread of corruption and so on will reach intolerable dimensions in the short term and is surely capable of rupturing the social fabric.

In foreign relations, China's accession to the WTO implies a more fierce competition between Asian countries to lure FDI and to fight for increased market share. Indeed, when China conceded to drop its agricultural support from the 10 per cent (a level which developing countries legally enjoy according to WTO clauses) to 8 per cent, it raised serious concerns within many developing countries. They feared in the main that such a policy may give rise to a new round of cut-throat competition between developing countries. India indirectly expressed its discontent over China's concessions to the USA. Many Asian countries still remember how China's decision of depreciating the *Renminbi* in 1995 led to a race to the bottom among Asian countries, which to some extent contributed to the Asian crisis in 1997.

To conclude, the rejoining of the global market on the part of China may imply new opportunities for some countries and some sections of the population, but it remains true that it also implies a race to the bottom among many developing countries, which in return may someday negatively affect China herself. Thus it is essential for us to maintain our effort to understand the impact of China's reforms and its harmonisation with global markets so that an early alarm can be sounded before disasters occur.

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