

The Post MFA era and the rise of China¹

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The Agreement on Textiles and Clothing (ATC) expired in 2005, ending 30 years of a quota system under the Multi-Fibre Arrangement (MFA). Ending the ATC signalled the World Trade Organisation's (WTO) promotion of free trade in this sector. However, phasing in free trade here has proved to be far from frictionless. In face of surging textile imports from China since January 2005, the US and EU used the protectionist clause in China's WTO accession agreement to restrain China's imports. China threatened retaliation. Although the EU and China eventually reached an agreement, in practice deferring abolishment of quotas to 2007, restraining China's exports to the EU, there is still no agreement between China and the US. Though there are basic common interest between the ruling elites and business sector of these three areas over the issue, periodic friction can be expected in coming years. This essay does not spill too much ink on the current negotiation between the three parties, but rather focuses on a wider picture: What is at stake for working people around the world with the free trade model as promoted by WTO in general, and the phasing out of MFA in particular? How the 'rise of China' relates to the above question? Is it a zero-sum game or a win-win situation for other developing countries? What is the appropriate position of working people in both the developed and developing countries?

China --- the biggest winner of MFA phase out?

The MFA was always regarded by developing countries as developed countries' protectionist attempt to bar their textile products, which is one of few industrial sectors where developing countries have comparative advantages. Though many developing countries had always pressed to eliminate the MFA, it is an irony of history that upon the phasing out of the MFA, in July 2004 some developing countries like Mauritius called for to extend the MFA, in face of the prospect of China seizing the lion's share of world export of textile goods.

The quota system on one hand was protectionist for the developed countries; on the other it helped to spread out textile exports across 200 countries. According to a WTO report, eliminating quotas for textiles products will end with only 30 strong

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developing countries left; among them China's share of exports may be as high as 50 percent (currently 16 percent), while India's is projected at 15 percent (currently four percent). Mexico, Philippines, and Indonesia will see textile exports halved, and Mexico will drop to three percent from the current 10 percent. In developed countries like the US and EU, over the past four years the US has lost 350,000 garment and textile jobs, and probably more than half the remaining 700,000 are at risk³.

The International Textile, Garment, and Leather Workers' Federation (ITGLWF) also called to extend the MFA, in order to save textile and garments jobs in developed as well as developing countries. In a press release, the ITGLWF said that since the elimination of the quota system in 31 Dec 2004, serious plants closure and jobs losses were reported in Kenya, Cambodia, Mauritius, Sri Lanka, Philippines, and Tunisia. When its call failed, the ITGLWF many times came close to the point of endorsing the EU's policy of using the clause in China's WTO accession agreement that restricts exports from China.

US labour federation the AFL-CIO along with US conservatives are even more aggressive in their attack on China's surges of cheap imports, holding it responsible for plant closures and job losses in the US. In 2000 the AFL-CIO fought in vain to stop the Clinton administration granting Permanent Normal Trade Relations status to China, and its demands to improve workers' rights as a condition of China's WTO accession also failed. In 2004 the AFL-CIO called to impose trade remedies (like raising tariffs) on China for being responsible for the disappearance of 2.5 million manufacturing jobs. Recently it joined the Chinese Currency Coalition to press the Chinese government to revalue the yuan. It seems that the AFL-CIO conceives that trade protectionism is a good way to keep jobs. Ironically, when it comes to free trade promoted by the North American Free Trade Agreement (NAFTA) and the WTO, the AFL-CIO does not remain loyal to trade protectionism and oppose NAFTA and the WTO in principle, but was content in trying to append a labour clause on free trade agreements.

To identify China as the main winner and the US and EU as losers over the end of the MFA is far from true. The first thing to note is that foreign textile companies account for ¼ of all Chinese export earnings from textile products; they, not Chinese companies, directly benefit from expanding Chinese exports. Chinese companies do reap the remaining ¾ of export earnings, but generally their average profit rates are low, since the majority of them subcontract to foreign brands, only earning a fraction

³ Trading down, David Moberg, *The Nation*, posted 22 December 2004 (10 January 2005 issue)

of value added, often just 10 percent⁴. Importers like Wal-Mart and brand companies pocket the major share of profit. Thirdly, the more China exports textile products, the more it needs to import textile machines from developed countries; Germany is the top textile machine exporting country.

In fact China has become the world's biggest textile machine importer, and is 1½ times higher in money terms than the second country—Turkey⁵. In the exchange of labour-intensive products (Chinese textile) for capital-intensive products (US and EU machinery), the latter get most value added. Therefore, the rise of China as a textile products exporter benefits Chinese, US, and EU companies. It is in the interests of all three to see the end of the MFA, despite episodic frictions.

That textile manufacturers in developed countries may lose market share does not nullify the above statement, because benefits can be ten times the losses to US capitalists as a whole by forcing open the capital goods market and services of developing countries, with China ranked number one. Textiles production is a sunset industry in developed countries anyway, and stopping China's imports will not save jobs there, because Wal-Mart will simply shift sourcing from China to India.

Here it must be noted that China also is losing textile and garment jobs. To be competitive enough to drive others out of business, Chinese textile and garment sectors shed 52.5 percent and 28 percent of jobs respectively between 1996 and 2001, amounting to 3.3 million and 0.5 million jobs. 26 million manufacturing jobs were lost in the same period, accounting for 40.5 percent of all manufacturing jobs⁶. Such sharp decline in manufacturing jobs in such a short time was unheard of. Those retaining jobs in Chinese textile and garment factories saw their wages cut and intensity of labour rose. In July 2005 3,000 textile workers in Guangzhou struck against wage cuts and were suppressed. However, neither the AFL-CIO nor the ITGLWF ever mention China job losses when calculating job losses in textile and garment in particular or manufacturing as a whole.

The notion that China wins and the US loses by ending the MFA is thoroughly flawed. If we think in terms of classes rather than countries, it is obvious that Chinese, US, and EU companies are all winners, while workers in all lands are losers, albeit to different degrees under different time frames. Targeting China and letting the US

⁴ *Hong Kong Economic Journal*, 17 Sept 2005

⁵ *Ming Pao*, Hong Kong, 8 June 2005

⁶ *Wo Guo Zhong Chang Qi Shi Ye Wen Ti Yan Jiu*. (Research on medium- and long-term unemployment problems in China). Jiang Xuan, 2004, Publishing House of the Renmin University of China, p.179-181

government off the hook, or worse supporting US protectionism, cannot benefit US workers. For there is no essential link between protecting the market from cheap imports and keeping jobs. What links exist are weak, never direct, and dependent on many factors that labour cannot control—employers, not employees, control investment decisions and distribution of profit that directly affect labour. Labour cannot fight for things over which they have no control. Even in the short-term, when protectionism produces positive side effects that may keep jobs in certain sectors, in the long run there is no basic correlation between the two. In this era of globalisation, the link between trade (protectionist or free trade) and job creation, or more generally, the link between growth and job creation, is weaker than ever. To argue the otherwise only helps the ruling elite pit workers in all countries against each other. US labour should first and foremost hold the US ruling elite responsible for job losses.

China as one more great engine of the global ‘race to the bottom’

Inside and outside of the AFL-CIO are dissenting voices against the obviously flawed argument against China. However, some may leap to the other extreme, embracing the Chinese government as ‘defender of the interest of developing countries’ as counterbalance to US imperialism. The logical conclusion then is that we can criticise the US government and business class, but not China⁷. Some may not go so far, but in differentiating from those China bashing, they tend to overemphasise engagement with China; some activists even promote engagement with China’s official trade union, the ACFTU.

The notion that China is defender of developing countries in opposition to US hegemony is simply a fairy tale. It denies the most obvious fact that in the name of free trade, China, exporting immense quantities of goods at ever-lower prices at the expense of her workers and weaker developing countries, has become a powerful engine driving the global race to the bottom for working people across the world. In doing this China serves both the interests of her elites and those in the US, EU, and Japan, rather than opposing them. They are in fact a grand alliance to exploit labour, despite occasional squabbles over the spoils. Deng Xiaoping laid out his programme for a new course in March 1989, three months before the massacre to repress the Tiananmen Square democracy movement, saying, “China cannot allow demonstrations to happen too easily,.....or else foreign investment stop flowing in. Our strict control over this aspect will not deter foreign investment. Quite the opposite,

⁷ Or as the US China Friendship Association puts it: supporting Chinese Socialism against US Imperialism

they will be more relaxed [in investing]”.⁸ Foreign investors are in full agreement with Deng, at least in practice, by pouring ever bigger capital investments into China after the massacre. Recently *The Economist* drew the following balance sheet: “The integration of China’s 1.3 billion people will be as momentous for the world economy as the Black Death was for 14th-century Europe, but to the opposite effect. The Black Death killed one-third of Europe’s population, wages rose and the return on capital and land fell. By contrast, China’s integration will *bring down the wages of low-skilled workers and the prices of most consumer goods, and raise the global return on capital.*”⁹ (Emphasis added)

The logical conclusion is that labour should simultaneously oppose the Chinese, US, EU, and Japanese elites, rather than siding with any of them.

To argue that China defends the interests of developing countries is to exaggerate her spasmodic and tactical support for them, while downplaying her fundamental ambition of carving ever-greater world market share at any human and environmental costs. While the media mainly focus on negotiations between China, the US, and the EU, they largely ignore the fact that developing countries like Brazil are also announcing restrictions on China’s textile imports.

For Mexico China’s threat is more pronounced. In 2003 Mexican manufacturers complained that China had overtaken Mexico to become the No. 2 exporter to the US after Canada¹⁰. Mexican President Fox said that Chinese pirates were stealing their jobs¹¹. We need not endorse Fox’s position, but it contradicts the rosy picture of ‘China defending developing countries’; quite the opposite.

In order to access the WTO the Chinese government made huge concession to the US and the EU, concessions that many developing countries like India had resisted, formerly at least. She voluntarily gave up the 10 percent domestic support in agriculture that developing countries are entitled to and accepted 8.5 percent instead. Her tariff cut is much deeper than India’s¹². In the current General Agreement on

⁸ Deng Xiaoping wenzuan (Writings of Deng Xiaoping), vol III, People’s Publishing House, Beijing, 1993, p. 286

⁹ The Dragon and the Eagle, *The Economist*, 30 Sept 2005

¹⁰ Some Mexican manufacturers, after traveling to China, were dispirited and had this to say: “They [Chinese] have extremely aggressive tax incentives, low salaries, very aggressive worker training, and a supply chain that allows them to have immediate access to the latest technology.” *Business Week*, 22 December 2003

¹¹ *Quand la Chine change le monde (When China changes the world)*, by Erik Izraelewicz, 2005, Chinese edition by CITIC Publishing House, p 146.

¹² For instance, see “China and the WTO: An Economic Balance sheet”, by Daniel H. Rosen, Institute

Trade in Services negotiations the US and EU are delighted that China was so forthcoming in opening up her services sector. Recently, Bo Xilai, the commerce minister, proudly told his audience that while developed countries have opened 80 percent of 160 service sectors (specified by the WTO), and developing countries have opened 20-40 percent, China has opened 62 percent of her service sectors to foreign competitors¹³. China's cutthroat competition helps the US and EU to press developing countries to follow China's example.

China's competitiveness lies in terribly low wages and effective state control over big and small things. State despotism denies workers and farmers the basic right of free association, robbing them of the elementary tools of self-defence. Many developing countries' governments seldom take seriously labour rights as codified in laws. In their Export Processing Zones labour codes are generally not implemented. However, few countries are so complete in suppressing workers' rights as China. The Chinese government removed the right to strike from the constitution in 1982. She only allows the existence of the (fiercely pro-business) officially run trade union, the ACFTU, which effectively denies workers the right to free association¹⁴. The official press often admits that the ACFTU practically allows capitalists to set up 'trade union branches' with no genuine membership, with plant managers as 'chairpersons', and no collective bargaining at all. Many yellow unions in the world look pale compared to the ACFTU. When western labour activists argue for engagement with the ACFTU, they have little idea that it is hardly a union in the proper understanding of the word. In addition to this, the government imposes countless measures to exert severe social control over working people, especially the peasants and migrant workers, so as to make them work like slaves. For instance, the household registration system acts as a kind of social apartheid, which systemically discriminate against migrant workers, barring them from enjoying public provisions in the cities. Outside the factories and dormitories, they simply cannot survive in the cities. It is an effective way to force them to accept starvation wages, appalling working conditions, and forced overtime. When workers spontaneously strike against these hellish conditions, they meet repression after repression. In colluding with the government, employers squeeze the maximum labour within the shortest time possible from the workers. It is this effectiveness in exploitation as a whole, rather than the single element of low wages, which makes China so competitive. That is why although wages in Vietnam are lower than in China, US garment buyers are abandoning Vietnam to source from China,

for International Economics web site

¹³ *Hong Kong Economic Journal*, 10 June 2005

¹⁴ http://news.xinhuanet.com/focus/2004-09/27/content_2014769.htm

because, we are told, to produce 100,000 pairs of trousers Vietnam manufacturers need four weeks, while the Chinese only need one week.

Aspects of dependent development

One of the greatest recent events that will shape global capitalism for years to come is the integration of China into the world market. Economists told us: “the entry into the world economy of China, India and the former Soviet Union has in effect doubled the global labour force (China accounts for more than half of this increase)... China has almost 200 million underemployed workers in rural areas, ...It will continue to subdue wage growth and global inflation. Profit margins could also remain historically high for a period.”¹⁵ Good news for business.

After 13 years of rapid marketisation, China’s GDP now ranks sixth in the world; she is also the fourth biggest exporting country. In 2003 she produced half the world’s cameras and 30 percent of the world’s air conditioners and TVs. Since 2003 China has been the top foreign direct investment (FDI) inflow country. Although capital export is still small, it is rising quickly and Haier and TCL’s overseas ambition is now well known. When Larry Summers was still with the World Bank, he projected that China’s GDP would surpass that of the US in 2010. He soon retreated from such gross exaggeration but others simply deferred the date to 2020¹⁶.

Larry Summers’ projection about China only serves the neo-conservatives’ China bashing. Such propaganda intentionally ignores that despite China’s rapid growth and her export surplus with the US, certain sectors of China’s development is of a dependent nature, and first and foremost dependent on the US; China is far from able to challenge the US. While China ranked sixth in global GDP terms in 2002, it ranked 111 in per capita terms. China is the fourth biggest exporting country, but more than half of the amount is from foreign investors, and much of the profit made will sooner or later be repatriated. What is more, half of the exports contain imported capital goods and spare parts, which means that China is largely processing imported goods with small value added. Although China exports large quantities of electronic goods, only 15 percent of the value is domestically added¹⁷. The US can allow China’s huge trading export surplus because, apart from what has been said, China has used her US dollar savings to buy a huge amount of US bonds. China can produce high end products but this must be qualified by the fact that the core technique has to rely on

¹⁵ China and the world economy, *The Economist*, 28 July 2005

¹⁶ China on the brink, by Callum Henderson, 1999, McGraw-Hill, US, p.137

¹⁷ *China Economic Review*, Hong Kong, October 2005, vol 15, no.10, p. 35

developed countries. Chips in computers and mobile phones, laser readers in DVDs, high quality steel for making cars, compressors in air conditioners, display tubes in televisions etc, still largely depend on imports from developed countries. As high as two thirds of capital goods, 85 percent of chips, 80 percent of petrochemical equipment, 70 percent of numerical controlled machine tools, 100 percent of optical fabric manufacturing equipment etc. has to be imported¹⁸. Beijing Daily complained that although 70% of world DVD are made in China, she has to pay 18 US dollars for royalties for every set of DVD sold, and domestic producers can only pocket 1 US dollars profit.¹⁹ In today's great powers dominated world, one simply cannot acquire foreign market without scarifying one's domestic market. The huge inflow of FDI to China has also taken its toll on domestic producers, with foreign firms accounting for 31 percent of manufacturing output in 2003, up from 17 percent in 1997²⁰; in 1992 it was only 9.5 percent. In telecommunications the situation is more significant, with foreign capital accounting for 46.5 percent of output and 75.6 percent of export in 2000 respectively²¹. Once fiercely autarchic, China today is dependent on foreign capital and foreign markets. Any significant slow down of FDI and shrinking of foreign markets spells disaster for China.

The great developmental potential of capitalist China

The other side of the coin, however, is that China is no common developing country. Every talk about China must take into account that China is full of contradictions. Both her huge size in territory and population, and her unique course of contemporary history, contribute to these contradictions. Though far from overtaking US, EU and Japan, China is fast in developing new branches of industry within a short period. In 1980, primary products accounted for 50.3% of her export, but only 4.7% for machinery and electrical appliances; in 2000 the former shrank to 10.2% while the latter surged to 33.1%²². In 2002, China was already the world top producer in 80 items, including color TV, washing machines, DVD, cameras, refrigerators, air-conditioners, motor bikes, microwaves, PC monitors, tractors, bicycles etc.²³ And

¹⁸ *Quanqiu hua shidai de zhongguo zhizao* (Chinese manufacturing in an age of globalisation), edited by Zhu gaofeng, published by Shehui kexue wenxian chubanshe, 2003, Beijing, p. 51

¹⁹ Beijing Daily, 11 march 2005, quoted in Ming Pao, Hong Kong, 8 Sept 2005.

²⁰ *Jingji quanqiu hua qushixia de guojia jingji anquan yan jiu* (Research on national economic security under economic globalisation), by Chen shuxiong, Hunan People's Press, 2005, p132

²¹ *Higashi Asia Kokusai Bungyo To Chugoku*, by Kimura Fukunari, 2002, Tokyo. Chinese version, 2004, Taipei, p. 26

²² China Statistics 2001, quoted in Kimura Fukunari, p.29.

²³ 2003 *Zhongguo Guoji Diwei baogao* (2003 China's place in the world), published by Shanghai Far

China is able to upgrade her manufacturing in a short period of time, for instance it develops IT products from scratch. Though it is still in its early stage of development, the potential here cannot be written off.

The rise of China, not only as a big country but also a country which is more and more export oriented, implies sharper than ever competition among Asian countries and even the whole world. More and more factories in developing countries in Asia, or even as far as Mexico, are shifting to China, resulting millions of jobs losses in these countries. Tremendous restructuring of global division of labor among developing countries is under way. Old supply chain in Asia gave way to new supply chain. Whereas up until eighties in the 20th Century, there were 3 tiers among Asian supply chain. The Japanese used the analogy of a flock of flying geese to describe the Asian supply chain, with Japan the leading goose, being the chief Asian investor, pocketing the largest share of value added; whereas the four dragons acted as the middle tier, the chief OEM producers for Japan. The ASEAN countries occupied the third tier, which implied that they could only get a small part of the value added. Despite this, it still allowed the ASEAN countries to partially industrialize their country within a relatively short period of time. The rise of China greatly transforms the old order of this flock of geese, putting at risk those weaker. Given China's manufacturing potential, it is probable that someday China can produce everything from low end to high end products, and thus poses big competitive threat to ASEAN countries or even Taiwan and Korea. The Japan external trade organization, which is well informed as to the situation of the Asian supply chain, reported in one of its book that for electronic products, China can now produce 20-30% cheaper than the ASEAN counterparts²⁴. The Economist tried to comfort developing countries with the remark, that China is also importing in great quantity from Asia and as such promote economic growth there. It is true. In fact ASEAN countries enjoy favorable balance of trade with China. So does Taiwan. When ASEAN is losing its US market share to China, they are compensated with a growing share in China's market.

The notion that the rise of China needs not be a zero-sum game for developing countries, should be qualified by the fact that there are great differences between them. For smaller and weaker countries, their economic performances are at risk in the face of rise of China. The last but not least, we must bear in mind that we must think in terms of social classes rather than national boundaries. It is not so much that China's

East Press, 2003, Shanghai, p. 75.

²⁴ Higashi Asia Kokusai Bungyo To Chugoku, by Kimura Fukunari, 2002, Tokyo. Chinese edition, 2004, Taipei, p194.

rise as a major exporting country necessarily stop other developing countries from enjoying economic growth, but rather it necessarily implies a tremendous restructuring of their economy. The result of this always implies downward pressure on jobs and wages in many countries, something that rarely bother the business sector. Between 1985 and 2000, Korea and Taiwan saw their new value added in light industry as proportional to GDP shrank from 14% to 4%²⁵, resulting in severe jobs relocations and downward pressure of wages. As for Hong Kong, her manufacturing is close to disappearing altogether to Mainland China, with the same downward social mobility for industrial workers. The next wave of disappearing of even services jobs to Mainland has been underway as well. The relocation of manufacturing and soon some services from Taiwan, Korea and Hong Kong to Mainland China do not necessarily bring about a decrease in their economic growth or profit growth, but it necessarily means jobs losses and downward social mobility for workers. By depressing jobs growth in manufacturing in Mainland China, Taiwan and Hong Kong, it is also depressing labor movement there. In ASEAN countries, it seems that the scale of restructuring are less significant than NICs, but much more research needs to be done before conclusion can be made. What is more, it is less a matter of things as they are today, but more a matter of what will be coming in next 5 or 10 years.

The China advantages

The huge growth of China's manufacturing in the last 20 years cannot be attributed to China's embracement of world market alone, as neo-liberals academics want us to believe. It is the outcome of a combination of many unique factors, and the most important of which always relates to the legacy of the great social and political transformation between 1949-1979, albeit at unnecessarily high social cost. Not understanding China's contemporary history is to understand nothing about China's future. Due to space reason we can only briefly touch on the vast subject.²⁶

There are seven great advantages of China to bring about this. Firstly she has a more developed and balanced industry than many developing countries, a result of China's much faster growth rate in manufacturing since 1950's than India. In 1980, when India and China was more or less equal in GDP per capita, China already enjoyed a bigger advantage, namely a more powerful manufacturing. An Indian economist

²⁵ The five great myths about China and the world, by John Anderson and Hu zuliu, Chinese edition, 2003, Beijing, China Finance Press, p. 63-70.

²⁶ The author discussed this subject more in detail in an earlier article, Comment on the rise of China, <http://linkage.ngo.org.tw/redmole/no3/R0305.htm>. Available only in Chinese.

Pranab Bardhan remarked that “compared to India, Chinese were better ‘socialists’ during the planning era, and better ‘capitalists’ during the reform era.”²⁷

Secondly, China has a very strong and effective state machinery, which has been an effective tool for mobilizing resources for modernization. Despite the ascendancy of faith in the free market as the only reliable tool of development, the truth is that the modernization of Korea and Taiwan has always been state led. China only adds one more example to the model, despite the fact that the state after 1980’s accounts for a smaller share in economic activity as compared with the period 1949-1979. China is able to pour in huge sum of state money to develop new industry, new EPZs, great infrastructure etc, that few developing country can compare with. The same goes for the degree of social control effected by the China state.

Thirdly, the sheer size of China --- a huge country with 1.3 billion population --- greatly magnify the advantages of *effective* state led growth and a more sophisticated manufacturing. It produces the benefit of economy of scale. She builds huge EPZs (Export Processing Zones) out of nothing and they now house two-third of the world total numbers of EPZs workers. This advantage helps China to build three basic manufacturing ‘clusters’, each has its own specialization. The first is the Pearl River Delta (including Hong Kong as the main channel for export), which specializes in labor intensive manufacturing, production of spare parts and their assembly. The second one is the Yangtze River Delta, which specializes in capital intensive industry likes cars, semi-conductors, mobile phones and note books computers etc. The third ‘cluster’ is Zhongguan Cun, Beijing, the Chinese silicon valley. It is here that the state directly intervene to make the collaboration of colleges, enterprises and state banks possible to develop Chinese IT industry.²⁸ Meanwhile state colleges are also putting out huge numbers of college graduates comparable to developed countries. In 2002 China had 590,000 college graduates majoring in science and technology, whereas Japan had 690,000 one or two year earlier, and Thailand only 10,000.²⁹

In addition to these is the legacy of land reform. China’s land reform is generally recognized as much more successful than India. China already out competed India as far back as 1980 and even earlier in all human development indicators: literacy rate,

²⁷ Quoted from *Industrial Growth in China and India, A Preliminary Comparison*, by R Nagaraj, *Economic and Political Weekly*, May 21, 2005, Mumbai, India

²⁸ *Made in China*, by Kuroda Atsuo, Toyo Keizai Inc, Tokyo, 2001. Chinese edition, 2002, Taiwan.

²⁹ China Statistical abstract 2004, National Bureau of statistics of China, p.178. Also see Kimura Fukunari, p.121 & 189.

daily calorie intake, death rate, infant mortality rate, life expectancy etc.³⁰ When Western and Japanese press repeatedly praise the quality of Chinese labor (better educated, more willing to learn, disciplined), especially those rural migrants as compared to India, it never occurs to them that one of the contributing factors to this achievement is the great transformation in land reform earlier, and the collective provision of rural infrastructure and education that followed, not anything related to the market reform later. Quite the contrary, with the dismantling of the commune and the return to family farming since 1980s, the burden of paying for their children's education now shifted to the peasants. The erosion of the past social progress is happening fast. The only conquest of the past social transformation left in the rural are small pieces of land that farmers are entitled to, which provide a certain degree of social security for rural households, and thus a kind of safety valve for the sharpening class contradiction since the market reform took off.

The fifth element is the deep rooted Chinese nationalism. China has a much more homogenous ethnic composition than India, with the dominant Han accounts for more than ninety percents of the country. The Indian dominant ethnic only accounts for one-fifth of the nation. It probably gives Chinese nationalism a greater coherence than India. Indeed, it was this spiritual factor which helped to give rise to the PRC (People's Republic of China), and which made her once dared to defy US and USSR simultaneously. China's contemporary history of anti-colonialism makes China both sensitive to foreign domination and confident to defy it if necessary. At the end of the last century, in face of rapidly enlarging market share for foreign companies, influential faction leaders in the Communist party has already called for a more autonomous model of capitalist development. After the bombing of the Chinese embassy in Belgrade in 1999, and the surge in domestic market share for foreign investment etc, mistrust of US and foreign investors has grown, and calls for more state led growth in high end products, and less reliant on FDI-dependent growth, have been more intense than ever. Which future direction she may take is still not clear. If China eventually opts for a more autonomous way of growth in the near future, China does have great potential to be an even greater economic, political and military power.

The sixth advantage of capitalist China is her absolutely atomized labor in face of an absolute state. The 1949 revolution was a genuine mass mobilization of peasants for modernizing and democratizing China. While the former task did achieve something significant, the latter task failed miserably. Instead of democracy we have a

³⁰ Transforming China – Globalization, transition and development, by Peter Nolan, Anthem Press 2004, London, p. 118.

bureaucratic state free of all people's control and rules arbitrarily. In the early period of the PRC, the workers, although hailed as the 'leading class', did not even have the liberty of choosing jobs or occupations or the particular 'Danwei' (in this case, a factory), let alone the freedom to form trade union or free election.³¹ This contributed to their absolute fragmentation. No layer of activists and organizers ever formed. The union cadres, under repeatedly purges, has long been transformed into an absolutely pro-management officials. Thus, long before the Communist party changed its course in 1980's, the relationship of forces between state and labor is entirely unfavorable to the latter. That is why the Communist Party could safely change its course without fearing too much an organized resistance from below. Deng Xiaoping actually tested his strength in the TiananMen crackdown, where workers were singled out to be suppressed harshly. One may argue the massacre practically laid the social foundation of turning China into a great sweatshop. Recently, Prasenjit Duara, an American scholar, remarked that 'the Communists made the work force docile and organized labor to be a managed entity that could be continuously mobilized. A Marxist might see China under Mao as producing the conditions of capitalism.'³² While there is still much debate on the character of the regime between 1949-1979, it is less so as to the characterization of the present regime.

Last but not the least, China has a unique advantage in the big leap forward to embrace global capitalism, namely the unique factor of having Hong Kong, Macau and Taiwan as her door to the world. The three areas have provided immense support to Deng's market reform from the very beginning till now, from ideological resources to financial and managerial personnel. Hong Kong acts as the chief financial center for China, raising billions of dollars for Mainland corporations every year. Neither Russia nor India possess such advantage.³³

"What is 'the factory of the world' anyway? It is simply using our own resources to produce low end products at the expenses of polluting ourselves, and what we get in return is only a small profit." It looks like China bashing from some oversea Chinese dissidents, but it is not. The one who spoke it was Pan yue, the deputy director of the government's environmental protection department.³⁴ His colleague Yang peng is even more radical: "The West robbed the world (in the colonial period), now we are robbing ourselves: the cities rob the rural, the power elites rob the powerless. And

³¹ Andrew Walder's book 'Communist neo-traditionalism work and authority in Chinese industry' gives very interesting account as to the authoritarian regime in plant level.

³² The Chinese Century, by Ted C. Fishman, New York Times, 4 July 2004.

³³ For more discussion of China's unique development please refer to the author's article, *ibid*.

³⁴ Quoted from <http://business.sohu.com/20050719/n226363226.shtml>.

when all public resources are robbed to the last penny, there we enter a period when the alliance of the elites split among themselves.”³⁵

There are built in crisis in the Chinese model, of course.³⁶ It is possible for the model to blow up in the near future, though the opposite case cannot be totally ruled out in advance. In either case, it spells disasters for Chinese as well as Asian working people.

Supporting Chinese workers on a class base

China’s model is no model for labor. China’s suppression of workers rights, her embracement of fiercely export-oriented growth, and her cutthroat competitiveness, is an unholy trinity. It is these things, which sustain the profitability of business classes in both Chinese and other countries, at the expenses of working people across the world. It is the duty of the world labor movement to oppose the ruling elites inside and outside China. It is particularly urgent because today Chinese labor is still in bondage and cannot even make its voices heard.

However we need to do this independently, along the terrain of labor and social movement, the mobilization of union members etc, not along the track of trade policy as defined by governments and TNCs, be it trade protectionism or trade liberalization.

Until recently, mainstream labor organizations in developed countries tend to see trade policy of governments and big business as a bus which can give labor a free-ride back to welfare states with jobs security. It is especially so when the bus is going the direction of trade protectionism. Eventually it leads nowhere near a welfare state. Soon the next bus is coming and it is heading for Free Trade Agreements. Amazingly labor leaders shake their head but then decided to jump on it, hoping that once on board they can show the driver a map called labor clause hoping to convince the driver to change course. As usual, the driver nod and smile, but at the end of the day the driver goes where the boss wants to go, and the security of jobs is no where at sight.

It is time to stop conceiving trade policy of the ruling elites as a bus which can gives labor a lift to welfare state. Appending labor rights to Free Trade Agreement like NAFTA or EU --- the social clause ---- has proved to be a failure in defending jobs. It

³⁵ Quoted from http://www.liuhongzhi.com/news/show_article.asp?id=00001325

³⁶ The author discussed this in his article on the rise of China, *ibid*.

will not succeed for WTO either. Neither appending labor rights to trade protectionism are genuine alternative. It is simply not the responsibility of labor to help their own bosses to out compete bosses in other countries in this global market.

We need to differentiate trade protectionism of developed countries from that of developing countries, though. Trade protectionism imposed by developed countries against weaker countries only serves to enhance world hegemonic powers, which are responsible for so much poverty in their homes and all around the world. We need a different yardstick for developing country, however. We need to recognize that weaker countries have the sovereignty to decide their own trade policy, including the right to protectionism against those hegemonic powers. However, we must also bear in mind that even in developing countries trade protectionism is not necessarily pro labor, and in fact not necessarily effective as a development tool. Between 1950's and 1970's, many developing countries pursued protectionism and import substitutions, and it was a time when jobs are somewhat more secure than now. However, the ultimate fading out of this model of development is not accidental at all. The worldwide recession in 1974 put to the end the more self-reliance model of capitalist development for developing countries. Precisely because of the limitation of trade protectionism, labor in developing countries needs to avoid making labor rights an appendage of protectionism, but rather vice versa. It means that we have to judge protectionist policy case by case, and subject it to the scrutiny of the interests of small farmers and workers. Even when labor support a particular protectionist policy, labor must maintain its independence and must not allow itself to be used by their own ruling elites to pit workers in different countries against each other. It is doubly true for Chinese labor activists. We are for protecting the livelihood of Chinese small farmers against the onslaught of TNCs and WTO. But it will be a different matter for protecting domestic market share of local manufacturers, as called for by some Mainland nationalistic academics. There is no mechanism whatsoever to allow workers to have a share of the profit being made by local manufacturers, or any employers. To argue the otherwise is to accept the ridiculous trickle down theory. What we are witnessing is rather the opposite, that foreign capital and domestic employers alike know no bound in exploiting Chinese workers. It follows that it is not in the interest of labor to help their bosses to fight for market shares, at home or abroad.

Therefore, we argue for:

- 1 The paramount task for labor in every country is to oppose the neo-liberalism in their own country, and first and foremost hold their own bosses responsible for plants

closure.

2 Labor, inside and outside China, must come to understand that they need to unite internationally to reverse the global race to the bottom, and do it by independent mobilization rather than putting all hopes on trade policy of their respective government.

3 Labor outside China should support Chinese labor's struggle, but in the language of labor movement, not in the language of trade policy nor narrow nationalism of their elites.

4 Chinese labors should fight for their own rights independently, and remains indifferent to the possible outcome that it may make Chinese employers become uncompetitive in the world market.

25th November, 2005.