

Chapter 6

Accumulation and inequality in China: what spaces for inclusion and welfare?

Kristen Nordhaug^{*}

Introduction

China's market reforms since 1979 have resulted in dynamic capital accumulation with strong income growth. Growth, however, has been distributed unequally, while welfare rights and employment guarantees from the socialist period have been abandoned or weakened. And accumulation has gone hand in hand with oppressive exploitation, redundancies, land confiscation, discrimination, corruption and environmental degradation. Over the past five to ten years, central government has responded with social reform initiatives, but what are the chances of success? How are other actors likely to respond, and what potential is there for transformation?

In order to identify the processes that have resulted in China's inegalitarian model of accumulation, I will use the[†] examples of Taiwan and South Korea for comparative purposes. By relating China's unequal model of accumulation to legacies from the Mao period and the unfolding of China's market reforms that began in 1979, I will argue that local governments have responded to fiscal and budgetary decentralization with policies to promote capital accumulation. They have, however, also responded with illegal taxation and land confiscations. I further argue that the local governments' promotion of capital accumulation has caused systemic overaccumulation and that the dark side of China's economic miracle has given rise

^{*} To be published in Kristian Stokke and Olle Törnquist, eds., *Democratization in the Global South: The Impact of Transformative Politics*, London/New York: Palgrave Macmillan.

to popular protest. In turn, central government has responded with reforms aimed at reducing inequality and improving welfare in order to dampen social unrest and change China's model of accumulation. However, many of these reforms have been resisted by both local governments and business. In conclusion, I argue that the successful implementation of the equalizing reforms 'from above' requires the support of popular mobilization 'from below' and discuss recent trends in China's labour relations to identify potential developments in this direction.

Precedents and legacies from the Mao period

From the late 1950s until the late 1970s, most land and means of production in China were publicly owned. Labour and land could not be bought or sold and market exchange and family labour were also restricted. The rural population was enrolled in collective production brigades, the urban population in work units (where employment was permanent). The work units controlled members' consumption as well as production, and provided housing, healthcare, education and pensions (Andreas 2008: 126-127).

Agriculture was treated as a source of revenue and cheap wage goods to be squeezed through compulsory sales to the state at low prices (Christiansen and Zhang 2009: 13). The government restricted migration within the country through a system of household registration (*hukou*) and the control of housing, food rationing and jobs. There were particularly severe restrictions on migration from the countryside to the cities. Urban workers in state-owned enterprises and public administration received nationally guaranteed wages and welfare. Workers in rural collective farms and enterprises received non-standardized wages and services that

depended on local economic conditions, which were inferior to those in the cities (Lee and Selden 2008: 83-84).

Despite the strong urban bias, living conditions in the countryside improved during the Mao period. The government encouraged irrigation and new high-yielding rice varieties and fertilizers. Rural health and education was promoted. In 1980, China had remarkably high scores on life expectancy and adult literacy in relation to its low GDP per capita (Arrighi 2007: 371-372).

The Chinese Communist Party (CCP) came to power through popular mobilization and the organization of mass associations of peasants, workers, women and youth. After the revolution in 1949, these organizations were subject to the one-party state, serving in the main as transmission belts for government decrees. The labour union was first suppressed and then disbanded during the last decade of the Mao period (Unger and Chan 1996: 104). In general, non-state organizations were not allowed to operate independently of the CCP.

Market reform, growth and distribution

Chinese market reforms began in 1979 under Deng Xiaoping's leadership, and administrative reform played an important role. Local control of the party state was limited to the self-contained people's communes that had a high degree of economic self-sufficiency and were led by local cadres who combined administrative and economic power. The market reforms separated economic and 'civilian' administration within the collectives, while new economic zones merged the administration of cities with surrounding rural communities (Shue 1988: 106-118).

The so-called 'household responsibility system' was introduced during 1979-83, which enabled previously collective farmers to lease land from the collectives. In

return for receiving usage rights to the land, the farmers had to sell grain quotas at administratively fixed prices. By the end of 1982, more than 90 per cent of China's agricultural households had returned to household farming. (Naughton 2007: 120, 240-241).

The dismantling of collective farming undermined the health and education services that had previously been provided by rural collectives, leaving the rural population to cover new costs for schooling and healthcare. This in turn became an inducement to seek off-farm employment, particularly within the new and enlarged economic zones where farm household members found work in the rural township-village enterprises (TVE) that emerged out of the previous rural collective enterprises (Naughton 2007: 243-246). A cheap, relatively well educated and healthy rural population was an asset for the TVEs, which were in a strong position to compete with the more regulated state-owned enterprises (SOEs). Rural industry was growing within the booming TVE sector.

Chinese communists carried out revolutionary land reform during and after the Chinese civil war. They removed the landlord class and redistributed land equally. Their opponents in Taiwan and South Korea responded with 'counter-revolutionary' land reforms that also removed landlords and redistributed land. China collectivized agriculture from the mid-1950s, but after the introduction of the household responsibility system, China's rural structure resembled those of South Korea and Taiwan. There was egalitarian, small-scale family farming in all three countries. Decentralized rural industrialization provided off-farm employment close to the farm both in Taiwan from the early 1960s and in China in the 1980s. In both countries, labour-intensive manufacturing went hand in hand with strong economic growth and egalitarian family farming. Similar patterns were found in South Korea, although with

less decentralized and rural industrialization. Gillian Hart has coined the term 'accumulation without dispossession' to underscore that these East Asian models of accumulation differ from the orthodox Marxist model, where 'primitive accumulation' with the separation of peasants from their land precedes capitalist industrialization (Hart 2002: 214-224).

South Korea and Taiwan have combined strong economic growth with relatively equal income distribution. Their 'growth with equity' is normally associated with the equal distribution of land prior to industrialization. China's development has, however, been characterized by strong economic growth and increased inequality despite similar rural structures. In 1980, the Gini coefficients of income distribution in China, South Korea and Taiwan were 0.32, 0.36 and 0.31 respectively. Income distribution in South Korea and Taiwan remained at similar levels during the next decades, while China had a Gini coefficient of 0.47 in 2005, on a par with the most unequal Asian countries (Hung 2008: 163).

In the early 1980s, China appears to pursue growth with equity that reduced the large income disparities between the cities and the countryside. However, the ratio of urban-to-rural household incomes then declined from 2.5 in 1978 to 1.8 in 1984. From 1985, the ratio began to rise again and has remained above 3.0 since 2002 (Naughton 2007: 133). In contrast, urban-rural income distribution became more equal in Taiwan and South Korea during the 1970s. In South Korea for example, the ratio changed from 1.49 in 1970 to 1.05 in 1974 (Hung 2009: 12).

Urban-rural equalization in Taiwan and South Korea came as a result of policy shifts. Previously, the government of Taiwan had monopolized the sale of fertilizers that were bartered against rice from the farms at terms of trade highly unfavourable to the farmers (Selden with Ka 1993), while South Korean authorities had neglected

the countryside. In the early 1970s, both governments expanded public investment in rural development programmes, and Taiwan ended its rice-fertilizer barter system. The policy shifts came in response to problems of external security and domestic legitimacy. The USA's commitment to the military protection of South Korea and Taiwan became more uncertain as the Nixon administration attempted to normalize relations with China. The domestic opposition in South Korea, and to a lesser extent Taiwan, became stronger and blamed the governments for the plight of the peasantries. Both governments responded with a number of new policies, including rural policies aimed at increasing self-sufficiency in food and improving legitimacy (Gold 1986: 106; Haggard and Moon, 1993: 74-75; Hung 2009: 12-13).

In contrast, China's urban bias persisted into the next century, after a brief interlude with relatively favourable agricultural policies with high procurement prices in the early 1980s. Unlike South Korea and Taiwan in the 1970s, China's security situation was stable. International relations with the United States improved in the early 1970s, and relations with the Soviet Union improved in the mid-1980s. Also, the domestic challenge from the Tiananmen Square student movement in 1989 had not included demands on behalf of the peasantry.

Growing rural incomes and the scarcity of cheap rural 'surplus labour' pushed wages up in Taiwan and South Korea. From the late 1980s, their manufacturers began to relocate significant amounts of labour-intensive production to low-wage areas in East and Southeast Asia, including China. China's rural surplus labour abounded through the 20th century and wage levels remained low.

China developed free export zones (special economic zones) and 'open economic regions' along the coast before the full transition to a national, export-oriented industrialization strategy was initiated in 1993. The export-led manufacturing

of the 1990s was more concentrated in urban and coastal areas and created less employment than the import-substitution manufacturing of the 1980s. There was a surge in private sector production and services as restrictions on private enterprise were lifted in the late 1980s. In the second half of the 1990s, the Chinese authorities launched tough public enterprise reforms. China's SOEs were gradually restructured from being dual-purpose business and welfare institutions to become profit-maximizing enterprises.

In 1988, a new bankruptcy law ended guaranteed lifetime employment. From the mid-1990s, SOEs received less support from the government controlled banks and many SOEs became financial burdens to the local governments that owned them. The 15th Communist Party Congress in September 1997 gave local governments a relatively free hand to let SOEs go bankrupt and privatize, corporatize, merge or downsize them. A large number of SOEs went bankrupt and were restructured or privatized along with thousands of TVEs that had served as their subcontractors. SOEs were permitted to abandon previous welfare commitments to their workers, which were replaced with much less comprehensive government welfare services (Naughton 2007: 105; Walker and Buck 2007: 43; Andreas 2008: 130-131). Manufacturing employment fell from 126 million by yearend 1996 to 101 million by yearend 2002. During the same period, employment within wholesale and retail, construction and transportation increased from 99 million to 109 million (National Bureau of Statistics 2005: table 5.6; Banister and Cook 2011: 41). This rise was not, however, sufficient to fully compensate for the decline in manufacturing employment. Millions became unemployed, while the informal sector was growing.

In the 1990s, a large number of workers migrated to the cities to find

employment, something that had previously been restricted by a food rationing system in which food coupons were reserved for households with urban *hukou*. At the end of the 1980s, this system was abandoned. In the early 1990s, employment growth of the rural TVEs slowed down and migration to the cities increased, and many urban governments restricted the use of migrant labour during the second half of the 1990s as urban unemployment increased, yet at the turn of the century labour migration to the cities rose swiftly (Li 2008: 4-5). In 1980 about seven million individuals were categorized as migrants, having lived at least six months in a county other than the county of their official household registration residence. This number increased to 22 million in 1990 and 79 million in 2000. The total number of migrants between and within counties was 144 million in 2000 (Liang and Ma 2004: 470, 476). By 2010, this number had increased to 221 million, 160 million of which were rural migrant workers (*Xinhua*, 1 March 2011).

Most migrant workers were employed in the private sector, especially within manufacturing and construction. Their employment was typically short term, with low pay and dangerous and dirty work. Only a minority signed labour contracts with their employers. Migrant workers without permanent urban *hukou* were deprived of the welfare entitlements enjoyed by the registered urban population and those in public employment. Migrant children inherited their parents' *hukou* and were unable to adopt urban welfare rights.¹ Migrant workers were also segregated by the shifting durability of their temporary residential rights and varying degrees of civil and social rights. Right at the bottom were the so-called 'ghost workers' without documents, who were exposed to official abuse and evictions (Naughton 2007: 124-125; Li 2008: 9, 14, 16; Wang 2010: 338; Wu 2010: 61-75).

Decentralized governance: developmentalism and predation

China's growth with inequality has unfolded within a decentralized political order, where local administrations from provinces downward are under strong pressure to expand their revenue. In 1986, a system of 'fiscal contracts' with the SOEs stipulated their profit remittances to the central government, while they were allowed to retain the remainder and in 1988, a similar system was established between the central government and local governments (Wong and Bird 2008: 430-431). Financial responsibilities are also decentralized. Since 1994, central government's share of total financial expenditure has only been about 30 per cent, while the remainder of the expenditure is distributed across four levels of local government and is reportedly the most decentralized budget in the world (Wong 2009: 77). Decentralization has strengthened the orientation to economic development goals in provinces, city municipalities, counties and townships.

A new 'cadre responsibility system' was established in the early 1990s. Local government officials were assessed for bonuses and promotion, or fined, according to the results of their administration within areas such as industrial and agricultural development, tax collection, family planning and social order (So 2009: 54, 60). The primacy of economic development was further strengthened by the new Tax Sharing Scheme that was established in 1994 to redress the distribution of revenue between central and local governments. Local governments would have to manage the same tasks as they had previously while their share of the total revenue declined.

Local governments were frequently in arrears on payments of wages, pensions and unemployment benefits after 1994. They tried to develop extra-budgetary sources of revenue that were not included in the system of revenue sharing with higher levels of the government. These extra-budgetary revenues

included legally retained earnings of public enterprises, as well as illicit revenue from extra fees and surcharges on public goods and services, expropriations, fines and bribes.

Local governments developed and strengthened public corporations. They also saved to invest in infrastructure in the hope of boosting economic growth and revenue, while attempting to restrict public consumption. They controlled provincial and local branches of the state-owned banks that provide credits for state-owned enterprises. Competition between local governments is a major source of dynamism in China's capital accumulation, which sustains a high level of productive investment, but is also a source of overaccumulation. Competition promotes duplication of investment across provinces and the build-up of excess capacity, which has reached global proportions in a several manufacturing branches (Hung 2008). In addition to overaccumulation in the real economy, easy credits have also sustained property bubbles in China's cities.²

While the authorities in coastal regions were able to establish TVEs to earn extra-budgetary revenue, those in the interior or those located far from the cities were normally unable to do so. They were under strong pressure to engage in illicit activities in order to meet their targets (So 2007: 565-568, 579 note 11; Wong and Bird 2008: 438, 446-449). Under these conditions, even well-intended reforms by the central government might backfire. For example, it is likely that local governments expanded their illicit confiscation of farm land from the turn of the century to compensate for the losses of revenue that resulted from centrally imposed restrictions on rural taxation (Lee 2007: 259).

Unlike Taiwan and South Korea, there have been marked, recent trends of 'primitive accumulation' in China, as peasant ownership of land has become more

contested in semi-urban areas. In November 2003, Chinese authorities reported more than 168,000 cases of illegal land seizures that year, which was twice as many as in the whole of the previous year. Estimates of the number of people who have lost their land, mainly as a result of urban expansion, vary between 40 and 66 million. According to one estimate, 10 million of the dispossessed were unemployed (Erie 2007: 921; Christiansen and Zhang 2009: 9).

Land has become more valuable than ever as cities sprawl and industrial and urban land use increases. Uncertain property rights and deficient land registration procedures facilitate land confiscation by local governments that lease the land to urban developers. On occasion, whole villages have been evicted from their land. Compensation is normally far below the value of the land after it has been converted for commercial purposes. Payment for land leases is a very important form of revenue for hard-pressed local governments with tight budgets, while control over land is a major source of patronage and corruption (So 2007: 570-571; Li 2009: 6-7; Christiansen and Zhang 2009: 9; Yep and Fong 2009: 70-73).

Grievances and conflicts: pressure from below

There have been numerous popular protests against exploitation, corruption, discrimination, unemployment, evictions and environmental degradation in China. The number of 'mass disturbances' registered by the Chinese authorities has been markedly growing since the early 1990s, including a sharp rise after the 1997 public enterprise reform, from 12,000 in 1996 to 40,000 in 2000. The number of registered incidents reached 83,600 in 2005. Since then the authorities stopped publishing figures. However, CCP sources cite figures of 127,467 incidents for 2008.³ The major riots and demonstrations that took place from the turn of the century to 2005

were over issues of unpaid wages and pensions, irregular taxes, fees and tolls, land confiscation without proper compensation, pollution and corruption (Keidel 2006: 1-3; China Labour Bulletin 2009b: 6). More recently there have been large strikes, demonstrations and other actions by migrant workers.

Political and social organizations that operate independently of the CCP are suppressed. Local elections are frequently controlled by elites, and key decisions are normally made by unaccountable officials at higher levels of government. Resistance is therefore mainly manifested at the local level through relatively spontaneous demonstrations, obstructions, strikes, petitions to higher-level government entities and, on rare occasions, court appeals (van Rooij 2009: 454-456). As noted by Vivienne Shue:

Suffering state-sector workers and peasants have been prone to frame their protests in localized and limited ways, taking as their protest targets not the architects of central reform policy but local 'bad' officials, 'incompetent' firm managers, and 'heartless' employers.

(Shue 2004: 29).

Peasants view the state in bifurcated terms. The central government is seen as a 'benign' authority. This vision has been further reinforced by Beijing's initiatives since the turn of the century to restrict rural taxation and strengthen the legal protection of peasant landholdings. Local township governments are perceived as 'malign' because they impose heavy taxes and fees on poor inhabitants, and dispossess peasants of land (Guo 2001: 435-437; So 2007: 571-572).

Workers also have a bifurcated view of the state. The benign character of central government is demonstrated by its promulgation of labour laws, while local

officials are viewed as corrupt and unfit to rule because they do not enforce the laws. Most labour protests are targeted at enterprise managerial cadres and their superiors in local industrial or labour bureaus, while they petition higher level government officials (Lee 2007: 20-21).

Reform from above

Central government is concerned that local unrest will cause social and political instability. This has resulted in, '[a] partial, limited and elite-driven [...] attempt to counter the unfettered market's potentially destabilizing effects' (Dong *et al.* 2010: 32). As argued by Elizabeth Perry, social unrest has served as a substitute for more democratic forms of representation to induce social reform:

Lacking elections and other democratic channels for conveying popular interests and grievances, protest in China provides valuable information to higher political authorities about pressing grassroots concerns. Furthermore, the issues that motivate widespread protests sometimes lead to substantive policy reform. The central government's historic abolition of the 2,600-year-old agricultural tax in January 2006... came in response to a raft of rural tax riots -- sparked by local officials' imposition of 'unfair burdens' -- that had engulfed the inland provinces in the 1990s. Similarly, the newly enacted property rights law, which establishes villagers' rights to the ownership and benefits of collective landholdings, is a reaction to the recent surge in violent land disputes -- triggered by the sales of village lands by local officials -- that have swept the coastal provinces.

(Perry 2008: 214).

Social reform policies were driven by a new political leadership. The 'populist faction' within the Politburo with careers from the poor interior areas of China strengthened its position after the turn of the century. It favoured policy measures to halt China's growing inequality. President Hu Jintao and premier Wen Jiabao, who assumed office in 2003, are leading members of this faction, rivalling the 'elitist faction' from the coastal areas with close ties to China's centres of foreign trade and finance (Hung 2009: 13-14).

Central government also hopes to use the reforms to change China's model of accumulation. Inequality is an obstacle to the transition of China's growth model from reliance on exports and investment to greater emphasis on domestic consumption. Consumption is constrained by the high level of saving in the Chinese economy. China's share of savings in GDP is one of the highest in the world and correspondingly, the share of consumption in GDP is among the lowest. Social inequality and reduced welfare lead to a low level of consumption and a high level of saving. High-income groups save relatively larger proportions of their income than low-income groups, and welfare cuts have resulted in a rise in the households' propensity to save to cover future costs. Inequality is also indicated by the strong growth of corporate profits relative to wages in GDP. Corporate saving has expanded in proportion with the rise in corporate income (Ma and Wang 2010). The government has responded with policies to boost consumption and reduce inequality.

By the late 1990s, the Chinese government had already initiated a Western development strategy ('Go West') in response to the Asian financial crisis. The government increased its investment in infrastructure programmes in the poor western provinces. Investors were encouraged by preferential tax policies, and the

banks were directed to increase their lending to the regions (Fan *et al.* 2010: 9-10; Lu and Deng 2011). These policies were given a new boost with the onset of the international financial crisis in 2008. The government responded with a fiscal stimulus package, which mostly was allocated to large infrastructure investments in interior regions.

Since 2002, the central government has developed various national welfare programmes that have become increasingly comprehensive, including basic health insurance for urban residents, the re-establishment of the Cooperative Medical System in rural areas, free and compulsory nine years of schooling for all, rural minimum income guarantees, social insurance and pensions for migrant workers and housing for the urban poor (Wang 2008). In 2005, the National People's Congress adopted the 'harmonious society' slogan, marking a reorientation from economic growth to overall societal balance and harmony. This went along with a programme to 'rebalance' China's economy with policies aimed at expanding domestic consumption markets and improve living conditions in the countryside and in poor provinces (Lardy 2007).

Rural reform and labour rights are parts of this effort to reduce inequality and support consumption. In 2006, the government abandoned all agricultural taxes, and in the same year established a Land Superintendency tasked with ensuring that farmland confiscated by local authorities was sold at market prices and that compensation was based on its commercial value. In October 2008, the Central Committee of the Communist Party adopted a major land reform programme in which peasants will have the right to transfer, subcontract or lease land use rights and to use their land as collateral in lending. Additionally, the supply of farming credits will be increased and improved. The intention is to create larger, more

productive land holdings and increase agricultural investment while the rural surplus population is to be employed within services industries in small and medium sized cities and receive universal welfare rights (Fabre 2009: 12-13; Li 2009: 7-8).

Although most of the social policies are designed for either rural or urban residents, not the migrant population, the government has introduced a compulsory social insurance scheme for migrant workers which includes pensions, injury compensation, maternity leave, medical care and unemployment pension. However, this insurance system is only available to workers with written labour contracts. In 2008, a labour contract law made long-term written labour contracts mandatory. In addition, there were also new laws concerned with labour dispute arbitration and employment promotion in 2008 (Ho 2009; Wang *et al.* 2009; Chan *et al.* 2010). The government's reform programmes look impressive. Implementation, however, is difficult and there is considerable resistance.

Limits to reform from above

As indicated above, China's rural reforms will both strengthen the property rights of farmers and facilitate the commercialization of land. It is, however, far from certain whether the central government will succeed in protecting peasant land. Land titles in China are highly uncertain and there is no independent judiciary. Moreover, it is the local authorities, the main beneficiaries of land confiscations, which are responsible for interpreting and implementing land laws, assessing land value and providing the relevant documents that give peasants the right to the land.

Additionally, if reform actually succeeds, it will probably create new rural inequalities with concentration of land and proletarianization. Labour migration from the countryside to towns and cities is then likely to increase and in turn, rural migrants

will be employed in urban services and receive welfare benefits. Thus these measures are expected to raise consumption, and the *hukou* residential system will then have to be reformed or abolished (Fabre 2009: 14; Li 2009: 11, 12, 17).

Hukou reform has been on the national political agenda since 2001, but with limited effect. An initiative to extend urban *hukou* rights to groups with stable urban residence and income by 2006 has not been implemented. In 2005, central government launched an initiative to replace the distinction between urban and rural *hukou* with a new distinction between permanent and temporal residency. This reclassification has only been implemented in part. There is strong resistance from central government ministries and many local governments that fear increased public expenditure on welfare. *Hukou* reclassification has also been a counter reform to many farmers in semi-urban areas, having lost the rural subsidies and collective land-use rights that were associated with their rural *hukou*, thus becoming more vulnerable to confiscation by local governments (Wang 2010: 342, 350-351).

As for labour reforms, employers have applied various strategies to evade mandatory labour contracts. Workers have been pressurized to sign contracts in which the contract terms are not disclosed, or forced to resign before they can be rehired, thus losing seniority rights. 'New' companies have been set up in which workers have been hired on new terms. The use of part-time labour has increased as it entails few contractual responsibilities. Many employers have increased their use of dispatch labour from employment bureaus to avoid contractual responsibility. The labour contract law has therefore indirectly increased labour market dualism between regulated employment in the formal sector and unregulated employment in the informal sector by labour bureaus and subcontractors (China Labour Bulletin 2009a: 18-19; Ho 2009: 93-94; Wang *et al.* 2009: 491-494; Zhang 2010: 4-5; Chan

et al. 2010: 51).

Much of the resistance to central government's reforms come from local governments that have strong inducements to prioritize accumulation over legitimation. As has been argued above, local governments' illegal taxation, land confiscation and preferential treatment of business are structurally rooted in the tight revenue constraints that have been imposed on them by central government. This goes hand in hand with the centrally imposed system of cadre evaluation, which induces local cadres to maximize economic growth and revenue. For Beijing, this is a comfortable situation. Its legitimacy is strengthened by its removed position, while local governments serve as lightning rods. The reforms may, however, falter without a thorough redress of relations between central and local governments.

The cadre evaluation system uses social order and political stability, as measured by the absence of mass incidents as a performance criterion (Zhang 2010: 6). Local cadres are therefore vulnerable to unrest. Their support of accumulation to generate revenue must be balanced with some degree of stability and legitimacy. Thus, a survey of labour conflicts 2007-08 by the *China Labour Bulletin* indicate that government officials frequently stepped in at the early stages of a labour dispute in order to mediate and avoid escalation while also partly addressing the workers' grievances. For example, it was common to compensate for least some part of outstanding wages in cases where the employer had disappeared (China Labour Bulletin 2009a: 42).

Nevertheless, central government's attempt to promote reform in a setting where local governments are at best are lukewarm about the reforms is vulnerable. It is likely that reform 'from above' will require some support 'from below' from groups outside the local party state that benefit from the reforms. Feedback from workers,

farmers, urban dwellers and others is needed to monitor non-implementation or violation of central government's reforms, and to improve upon them. This will require collective organization with some degree of autonomy from the local state-party-business nexus. Tendencies in this direction are seen within China's labour relations.

Labour reform from above and the mobilization of workers from below

There are differing assessments of the power of labour in China. Ching Kwan Lee is relatively pessimistic in her study of workers in state-owned enterprises in China's northeast 'rustbelt' and migrant workers in the 'sunbelt' in the south. She argues that labour mobilization is frequently strong within work units, while broader labour activism across work units is constrained by official suppression and the segmentation of workers. Labour is isolated from alliances with other classes or civil society associations and has to contend with a strong alliance between government and business. And thus workers must put their trust in a legal system that is biased towards their employers (Lee 2007).

Beverly Silver and Lu Zhang are more positive about the strength of Chinese labour. Silver has previously argued that international relocation of major sectors of manufacturing such as automobile production, has induced defensive 'Polanyi-type' labour activism in old 'sunset' centres of production (comparable to Lee's 'rustbelt') aimed at resisting redundancies and declining standards of living that threaten customary livelihoods. Expansion in new 'sunrise' manufacturing centres (comparable to Lee's 'sunbelt') has gone hand in hand with assertive 'Marx-type' labour activism, which is oriented to improving working conditions and wages. Sunrise capitalists are forced to make concessions to their workers and wages are

increased. Eventually, production is relocated and the cycle is repeated (Silver 2003). Silver and Zhang regard Chinese labour activism in the late 1990s as mostly defensive, Polanyi-type sunset area responses in state-owned enterprises. Labour conflicts since 2004 are seen as assertive, Marx-type activism within new sunrise centres of manufacturing along the coast (Silver and Zhang 2009: 175).

Labour shortage has played a significant role in empowering China's workers. As argued earlier, the period from the mid-1990s until 2002 was characterized by declining employment within manufacturing. Manufacturing employment began to rise again after 2002 from 101 million by yearend 2002 to 113 million by yearend 2006 (Banister and Cook 2011: 41).

The inflow of foreign direct investment since China joined the WTO in 2001 led to increased demand for manufacturing labour in coastal areas of China. Meanwhile, the central government and some local governments initiated policies to raise farm income through tax reductions and subsidies. These policies, along with the coming of age of China's one-child generation (introduced in 1978), reduced labour migration from the countryside. The average nominal hourly wages of workers within manufacturing doubled in 2002-08. Real wage increase was limited by inflation, but there were still a significant increases (Banister and Cook 2011: 45, 49; Hui 2011: 140).

The implementation of the labour contract and labour arbitration laws in 2008 coincided with a sharp drop in employment due to domestic problems and the international financial crisis. Manufacturing employment fell to from 113 million in 2006 to 97 million in 2007 and stood at 99 million by yearend 2008. The number of labour arbitration cases rose from 350,000 in 2007 to 693,000 in 2008, while the number of workers involved increased from 650,000 to 1.2 million. Labour-related

law suits nearly doubled (China Labour Bulletin 2009a: 14; Banister and Cook 2011: 41).

Arbitration councils and courts frequently favour employers. Local authorities in China's sunbelt have, however, been strict in enforcing the labour laws. The city governments of Shenzhen, Guangzhou and other export manufacturing centres in the Pearl River Delta have adjusted their industrial policies to promote high-tech, value-added production. They wish to dispense with labour-intensive, low value-added manufacturing production that faces tough competition from low-wage countries such as Vietnam and Indonesia. Low value-added manufacturing is also regarded as a cause of public disorder due to the extensive use of migrant labour. Stricter law enforcement has given workers more leverage to push their demands. Low value-added manufacturing is relocated to the interior of China or abroad. Relocation to the interior benefits from investment support under the central government's 'Go West policy' (Ho 2009: 88).

In November 2008, the government introduced a major stimulus package oriented to infrastructure investment and domestic demand that was quite successful in seeing China through the crisis.⁴ The government also introduced a freeze on minimum wages in response to the financial crisis. China's economy began to recover during the third quarter of 2009 and manufacturing employment grew. The government's extensive support to the interior of China through the stimulus package created new local job opportunities that reduced labour migration to the coast, which has resulted in a shortage of skilled and semi-skilled workers in China's coastal export centres (Hui 2011: 140). From the second half of 2010, local governments began to raise minimum wages. The 12th Five-Year Plan of October 2010 stated as one of its objectives that the share of consumption in output should grow and that

labour income should increase at least as fast as labour productivity. According to the government's employment market plan of February 2012, minimum wages should grow at least 13 per cent every year until 2015 (China Labour Bulletin 2011: 6-7; Hui 2011: 141; Naughton 2011: 3; China News Center 2012).

The minimum wage increases of 2010 came after a wave of labour conflicts in the manufacturing centres in the South. The *China Labour Bulletin* suggests that central government was favourably inclined to this pressure from below, as its project of boosting wages faced stiff resistance from employers (China Labour Bulletin 2011: 35).

A new generation of migrant workers has emerged that are more assertive than their parents. Many of them work under poor conditions, but high-skilled, relatively well paid-workers have also taken part in collective labour conflicts. In May 2010, more than 1800 workers at the Nanhai Honda component factory went on strike. This was followed by strikes in another Honda component factory and several other automakers. The Nanhai Honda strike lasted for two weeks and was costing the company up to 2.4 billion RMB (about USD 350 million) a day. The Honda strikers claimed that the enterprise branch of the official All-China Federation of Trade Unions (ACFTU) had sided with management and demanded that trade union representatives should be elected. Eventually, ACFTU members used violence against the strikers (Estlund and Gurgel 2011: 19-21; Hui 2011: 137-138).

The Nandai Honda strike was a Marx-type labour action, which was oriented to offensive economic interests and which succeeded in obtaining a significant wage increase. The strike was followed by a public debate about the purpose and role of the ACFTU, the only officially recognized trade union in China. It was originally based in China's SOEs, but over the past years it has worked to unionize the private

sector. The union is controlled by the CCP and its officials are normally chosen from the Party. Officials within enterprises are normally unelected and financed by the enterprise themselves, and are frequently recruited from management. Thus, the ACFTU within enterprises typically serves the management, while its hierarchy outside the enterprises serves the CCP (Estlund and Gurgel 2011: 26-28, 37).

In July 2010, the Executive Committee of the ACFTU adopted several resolutions on 'further enhancing enterprise trade union work', including resolutions about democratic intra-enterprise elections of trade union chairs within enterprises and collective bargaining. This may be seen as an attempt to win back territory after the Nanhai Honda strike. Moreover, there have been experiments with (limited) forms of union elections and collective bargaining in the 'liberal' provinces Guangdong and Zhejiang over the past few years (Estlund and Gurgel 2011: 25-26, 45-46, 49-51).

The ACFTU and the Ministry of Human Resources and Social Security are promoting a form of tripartite relations, although initiative is restricted by political authoritarianism. Significantly, government officials use the term 'collective consultation' rather than 'collective bargaining'. It is an open question how far the 'liberal', rich coastal provinces will go towards real interest representation by labour, and how many strings will be attached. It also remains likely that the gap between the labour regimes of these provinces and the provinces in the interior of China will grow as the latter become hosts to China's sweatshops. The ongoing changes in China's internal manufacturing product cycle and division of labour will then be accompanied by diverging labour regimes.

Concluding remarks

I have argued that the inequality and destabilization caused by China's market reforms have forced the central government to undertake social reform to stabilize the political and social order and reorient China's model of accumulation. Social reform from above by central government is, however, a highly contradictory process, as China's growth dynamic has to a large extent been based on the devolution of political power to local governments and strong alliances between local governments and business. Local governments and business will frequently oppose, stall or distort the implementation of central government's social reforms. I have discussed labour relations in order to indicate how this stalemate might yet be interrupted through popular protest and mobilization from below. To some extent, reform from above and popular mobilization from below may reinforce one another, but there is a long way to go. Mobilization from below is restricted by China's authoritarian order, while uneven capitalist development creates differing regional conditions for empowerment and mobilization.

Notes

¹ Before 1998, children inherited their mother's *hukou*, thereafter they could inherit the *hukou* of either of their parents. When both parents have a rural *hukou*, their children will still be deprived of urban *hukou* rights.

² At the time of writing of this chapter (February 2012), it is widely argued that these bubbles are about to burst. Some fear that property prices in China's major cities will collapse.

³ It should be added that the figures are unreliable due to the vague definition of 'mass disturbance' as 'any kind of planned or impromptu gathering that forms because of "internal contradictions", including mass public speeches, physical conflicts, airing of grievances or other forms of group behaviour that may disrupt social stability.' See Freeman (2010).

⁴ The stimulus package entailed large credit creation, which reinforced China's problems of overaccumulation. More recently the central bank has attempted to tighten monetary policies to deal with these problems.

Bibliography

Andreas, J. (2008) 'Changing Colours in China' in *New Left Review* 54: 123-42.

Arrighi, G. (2007) *Adam Smith in Beijing: Lineages of the Twentieth-first Century* (London/New York: Verso Books).

Banister, J. and Cook, G. (2011) 'China's employment and compensation costs in manufacturing through 2008' in *Monthly Labor Review*, March: 39-52.

Chan, Chris King-Chi, Pun Ngai and Jenny Chan (2010) 'The Role of the State, Labour Policy and Migrant Workers' Struggles in Globalized China' in Bowles, P. and Harriss, J. (eds) *Globalization and Labour in China and India*, pp. 25-44 (Basingstoke: Palgrave Macmillan).

Cheng, Tiejun and Selden, M. (1994) 'The Origins and Social Consequences of China's Hukou System' in *China Quarterly* 139: 644-668.

China Labour Bulletin (2009a) *Going it Alone: The Workers' Movement in China (2007-2008)* Hong Kong.

China Labour Bulletin (2009b) *Protecting Workers' Rights or Serving the Party: The way forward for China's trade unions*, Hong Kong.

China Labour Bulletin (2011) *Unity is Strength: The Workers' Movement in China 2009-2011*, Hong Kong.

China News Center (2012) 'China Eyes 13 Percent Rise In Minimum Wage By 2015', February 9, <http://www.chinamedia.com/news/2012/02/09/china-eyes-13-percent-rise-in-minimum-wage-by-2015/>

Christiansen, F. and Xiaquan Zhang, H. (2009) *The Political Economy of Rural Development in China: Reflections on Current Policy*, Duisburg Working Papers on East Asian Studies, no. 81.

-
- Dong, Xiao-yuan, Bowles, P. and Hongqin Chang (2010) 'Managing Liberalization and Globalization in Rural China: Trends in Rural Labour Allocation, Income and Inequality' in Bowles, P. and Harriss, J. (eds) *Globalization and Labour in China and India*, pp. 25-44 (Basingstoke: Palgrave Macmillan).
- Erie, M. S. (2007) 'China's (Post-)Socialist Property Rights Regime: Assessing the Impact of the Property Law on Illegal Land Takings' in *Hong Kong Law Journal*, 37(3): 919-949.
- Estlund, C. and Gurgel, S. (2011) *Labor law Reform with Chinese Characteristics*, New York University Public Law and Legal Theory Working Papers, no. 297.
- Fabre, G. (2009) 'The Twilight of 'Chimerica'? China and the Collapse of the American Model', *Ca'Foscari University of Venice, Department of Economics, Working Papers* no. 6.
- Fan, Shenggen; Kanbur, R. and Xiaobo Fang (2010) 'China's Regional Disparities: Experiences and Policy' *Cornell University Department of Applied Economics and Management Working Paper*, 2010-03.
- Freman, Will (2010) 'The accuracy of China's "mass incidents"', *Financial Times*, March 2.
- Gold, T. B. (1986) *State and Society in the Taiwan Miracle* (Armonk, N.Y./London: M.E. Sharpe).
- Guo, Xiaolin (2001) 'Land Expropriation and Rural Conflict in China' in *China Quarterly* 166: 422-439.
- Haggard, S. and Chung-in Moon (1993) 'The State, Politics, and Economic development in Postwar South Korea' in Hagen Koo (ed.) *State and Society in Contemporary Korea*, pp. 51-94 (Ithaca/London: Cornell University Press).
- Hart, G. (2002) *Disabling Globalization: Places of Power in Post-Apartheid South Africa* (Berkeley/LA: University of California Press).
- Ho, Virginia E. Harper (2009) 'From Contracts to Compliance? An Early Look at Implementation Under China's New Labor Legislation' in *Columbia Journal of Asian Studies*, 23(1): 34-107.
- Hui, Sio Ieng (2011) 'Understanding Labor Activism: The Honda Workers' Strike' in Christoph Scherrer (ed.) *China's Labor Question* pp. 133-151 (München: Rainer Hampp Verlag).
- Hung, Ho-fung (2008) 'Rise of China and the global overaccumulation crisis' in *Review of International Political Economy* 15(1): 149-79.
- Hung, Ho-fung (2009) 'America's Head Servant: The PRC's Dilemma in the Global Crisis' in *New Left Review* 60: 5-25.
- Keidel, A. (2006) *China's Social Unrest: The Story Behind the Stories*, Carnegie Endowment for International Peace, Policy Brief no. 48.
- Lardy, N. (2007) 'China: Rebalancing Economic Growth', Conference Paper *The China Balance Sheet in 2007 and Beyond*, 2 May 2007.
<http://www.petersoninstitute.org/publications/papers/lardy0507.pdf> (accessed 11 April 2012).
- Lee, Ching Kwan (2007) *Against the Law: Labor Protest in China's Rustbelt and Sunbelt* (Berkeley: University of California Press).
- Lee, C.K. and Selden, M. (2008) 'Durable Inequality: the legacies of China's revolutions and the pitfall of reform', in Foran, J., Lane, D., and Zivkovic, A. (eds.) *Revolution in the Making of the Modern World*, pp. 81-95 (New York/London: Routledge).
- Li, Cheng (2009) 'Hu Jintao's Land Reform: Ambition, Ambiguity, and Anxiety' in *China Leadership Monitor* 27: 1-22.

-
- Li, Shi (2008) 'Rural Migrant Workers in China: Scenario, Challenges and Public Policy' in *Policy Integration and Statistics Department International Labour Office*, Working Paper No. 89.
- Liang, Z. and Ma, Z. (2004) 'China's floating population: New evidence from the 2000 census', *Population and Development Review* 30 (3): 467-488.
- Lu, Z. and Deng, X (2011) 'China's Western Development Strategy: Policy, Effects and Prospects', Munich Personal RePEc Archive, MPRA Paper No. 35201: <http://mpra.ub.uni-muenchen.de/35201/> (accessed 11 April 2012).
- Ma, Guonan and Yi Wang (2010) 'China's High saving Rate: Myth and Reality', *BIS Working Paper*, no. 312.
- National Bureau of Statistics of the People's Republic of China, *China Statistics 2005*, http://www.allcountries.org/china_statistics/ (accessed 11 April 2012).
- Naughton, B. (2007) *The Chinese Economy: Transitions and Growth* (Cambridge Mass./London: The MIT Press).
- Naughton, B. (2011) 'What Price Continuity?' in *China Leadership Monitor* 34: 1-11.
- Perry, E. J. (2008) 'Permanent Rebellion? Continuities and Discontinuities in Chinese Protest' in Kevin J. O'Brien (ed.) *Popular Protest in China*, pp. 205-216 (Cambridge, Mass.: Harvard University Press).
- Selden, M. with Chih-ming Ka (1993) 'Original Accumulation, Equality, and Late Industrialization: the Cases of Socialist China and Capitalist Taiwan' in Selden, M. *The Political Economy of Chinese Development*, pp. 109-136 (Armonk, N.Y./London: M.E. Sharpe).
- Shue, V. (1988) *The Reach of the State: Sketches of the Chinese Body Politics* (Stanford: Stanford University Press).
- Shue, V. (2004) 'Legitimacy crisis in China?' in Peter Hays Gries and Rosen, S. (eds) *State and Society in 21st-century China*, pp. 24-49 (New York/London: Routledge).
- Silver, B. (2003) *Forces of Labor: Workers' Movements and Globalization since 1870*, (Cambridge: Cambridge University Press).
- Silver, B. and Lu Zhang (2009) 'China as an Emerging Epicenter of World Labor Unrest' in Ho-fung Hung (ed.) *China and the Transformation of Global Capitalism*, pp. 174-187 (Baltimore: John Hopkins University Press).
- So, A. Y. (2007) 'Peasant Conflict and the Local Predatory State in the Chinese Countryside' in *The Journal of Peasant Studies* 34(3-4): 560-581.
- So, A. Y. (2009) 'Rethinking the Chinese Development Miracle' in Ho-fung Hung (ed.) *China and the Transformation of Global Capitalism*, pp. 50-64 (Baltimore: John Hopkins University Press).
- Unger, J. and Chan, A. (1996) 'Corporatism in China: A developmental State in an East Asian Context' in McCormick, B. L. and Unger, J. (eds) *China After Socialism: In the Footsteps of Eastern Europe or East Asia?*, pp. 95-129 (Armonk, N.Y./London: M.E. Sharpe).
- Van Roij, B. (2009) 'Land loss and conflict in China: Illustrated by cases from Yunnan Province' in Ubink, J. M., Hoekma, A. and Assies, W. J. (eds.) *Legalising Land Rights: Local Practices, State Responses and Tenure Security in Africa, Asia and Latin America*, pp. 435-465 (Leiden: Leiden University Press).
- Walker, R. and Buck, D. (2007) 'The Chinese Road: Cities in the Transition to Capitalism' in *New Left Review* 46: 39-66.

Wang, Haiyan, Appelbaum, R., DeGiuli, F. and Lichtenstein, N. (2009) 'China's New Labour Contract Law: is China moving towards increased power for workers?' in *Third World Quarterly* 30(3): 485-501.

Wang, Fei-Ling (2010) 'Renovating the Great Floodgate: The Reform of China's *Hukou* System' in Martin King Whyte (ed.) *One Country, Two Societies: Rural-Urban Inequality in Contemporary China*, pp. 335-364 (Cambridge Mass.: Harvard University Press).

Wang, S. (2008) 'The Great Transformation: The Double Movement in China' in *boundary 2*, 35 (2): 16-47.

Wong, C. (2009) 'The New Social and Economic Order in Twentieth-First Century China: Can the Government Bring a Kinder, Gentler Model of Development?', in Paus, E., Prime, P.B. and Western, J. (eds.) *Global Giant: Is China Changing the Rules of the Game?*, pp. 73-92 (Basingstoke: Palgrave MacMillan).

Wong, C. P.W. and Bird, R. M. (2008) 'China's Fiscal System: A Work in Progress' in Brandt, L. and Rawski, T. G. (eds.) *China's Great Transformation*, pp. 429-466 (Cambridge: Cambridge University Press).

Wu, Jieh-Min (2010) 'Rural Migrant Workers and China's Differential Citizenship: A Comparative Institutional Analysis' in Martin King Whyte (ed.) *One Country, Two Societies: Rural-Urban Inequality in Contemporary China*, pp. 55-81 (Cambridge Mass.: Harvard University Press).

Yep, R. and Fong, C. (2009) 'Land Conflicts, Rural Finance and Capacity of the Chinese State' in *Public Administration and Development*, 29: 69-78.

Zhang, L. (2010) 'Coming Together: The Impacts of Labor Law Reform and Its Implications for Chinese and American Workers' in Jialu Liu, Virginia Harper Ho and Lu Zhang, 'Chinese Workers: Under Threat or a Threat to American Workers?', *Indiana University Research Center for Chinese Politics and Business, Working Paper no. 2*.