

# 2001

*In 2001, after fifteen years of negotiations, the People's Republic of China joined the World Trade Organization (WTO). Although many hailed this event as a milestone for China's economic transition and a cause for rejoicing, others expressed concern over how China's joining would impact workers both domestically and globally. Within China, fears arose that the country's further integration into the global economy would result in massive unemployment; abroad, the concern was that China's comparative political economic advantages might undercut workers elsewhere, especially in the Global South. This essay tracks the process of China's accession to the WTO and looks into its impact on Chinese workers.*

# China Joins the World Trade Organization: Implications for Workers

Dorothy J. SOLINGER<sup>1</sup>

‘**T**o poor people, us ordinary folk, the World Trade Organization [WTO] doesn’t have any benefits,’ lamented a laid-off worker whom I encountered on the streets of Wuhan in October 2001, on the eve of China’s accession to the organisation. This man, recently let go without notice from a temporary work unit, having earlier been sacked from his once-secure state enterprise posting, was pedalling a three-wheeled cart to sustain his livelihood when I spoke with him. The pedicab he drove—an innovative but short-lived solution in Wuhan, where 40,000 of these were said to operate at that time—garnered an income of about 30 or 40 US cents per mile for millions like him. But, he continued: ‘Any other profession is no good [其他的职业不行].’ What concerned him most was the possibility that the government might eliminate bicycle taxis like his, which indeed it did just a couple of years later. ‘The WTO is good for the rich. But the poor, those doing bitter labour, will just increase; there’ll be more criminals, a lot of people like me agree,’ he pronounced with some authority. ‘They say goods will be getting cheaper, but that’s about high-class things, like cars. We can’t afford those things anyway. What it’s all about, we don’t understand much, [but we do know] it will have a negative impact.’

On 11 December 2001, after fifteen years of tortuous negotiations, China formally entered the WTO. The government and media in both the United States and China hailed the event as a cause for rejoicing. But the rosy picture they painted turned bleak when analysts began to contemplate the possibility that a substantial section of the Chinese urban workforce might lose their jobs as a result. For instance, the investment bank Salomon Smith Barney predicted a year beforehand that as many as forty million people in China could lose their employment in the first five years after entry.<sup>2</sup>

In fact, with the benefit of hindsight, we can affirm that joining—and thus becoming more deeply enmeshed in the global economy—would not be directly responsible for job losses. Instead, membership intensified

trends already under way: heightening competition would accelerate state firms' insolvency, and requiring China to train and employ higher-quality labour would make most of the extant Chinese urban workforce unsuitable for the employment on offer. It would also precipitate those workers' replacement with upgraded machinery, even as better educated, younger employees moved into newly created jobs. At the same time, an increased inflow of agricultural imports was apt to hurt Chinese farmers, and so spur migration of more rural labourers into the urban job market. Besides, from the latter half of the 1990s, rural industry's ability to absorb labour had begun declining.<sup>3</sup> Farm employment dropped by 17 million in 1998 alone and by almost 33 million throughout the late 1990s.<sup>4</sup> One Chinese commentator characterised the coming employment situation as 'frost appearing on top of snow' (雪上加霜)—a four-character metaphor meaning 'one disaster after another'.<sup>5</sup>

Yet one more factor was China's growing integration into the global economy. In late 2001, one of my newly unemployed informants in the medium-sized city of Zigong, Sichuan, bemoaned: 'A lot of factories have gone bankrupt because people prefer foreign-made electronics.' All of these tendencies spelt the discharge of dozens of millions of urban workers long assured that they could count on a steady job and paid retirement, with secure health care and other benefits, for their lifetimes. How did this come to pass?

### First Steps

From the early 1970s, China had started, if gingerly, to open its economy to the world. In 1980, it resumed its pre-1949 seat on the United Nations Interim Commission for International Trade Organization, which appointed the Secretariat for the General Agreement on Tariffs and Trade (GATT, the predecessor of the WTO). This move indicated the Chinese Government's intention to take part in GATT affairs. The next year, China was authorised to act as an observer at GATT meetings and, in 1983, it applied to join GATT's Multifibre Agreement. The subsequent step took place in mid-1986, when the Chinese authorities formally notified GATT that they had decided to seek resumption of the country's status as a contracting party; in the following year, formal negotiations began. A critical point here is that one of the chief goals of politicians who favoured reform of the national economy was to push ahead with marketisation—and to ensure it was irrevocably set into place.<sup>6</sup>

Throughout the late 1980s and 1990s, China's leaders initiated structural changes in the economy, such as the phasing out of direct subsidies for exports, cutting tariffs and/or quotas on thousands of categories of merchandise and eliminating licensing requirements. These measures were taken, first, from a desire to enter the GATT, then in preparation for acceptance into the WTO (which succeeded the GATT in 1995).<sup>7</sup> From 1994 to 1997, the country's average tariff rate dropped from 43 to 17 percent; when China entered the WTO in late 2001, the overall average was just 15 percent.<sup>8</sup> In early 1999, Premier Zhu Rongji agreed to open many protected sectors to gain acceptance into the WTO, again—as had reformers of the 1980s—in a bid to use internationalisation to prod state-owned enterprises to press on with reforms.<sup>9</sup>

This lengthy background—marked first by China's leaders' aims, then by WTO members' conditions and, at last, by compromises—led to the final fulfilment of the requirements and expectations of the parties involved. It is true that pressure of a sort did come from the outside: after 1986 the then-GATT member parties did urge China to undertake multiple adjustments to its economic structure and practices before they would admit the country into their ranks. But the fundamental motive behind all the modifications the Chinese officials made to the nation's economy over more than a decade was clearly their own drive for China's inclusion in the WTO. So, in that sense, it was a choice the Chinese authorities took themselves and not the influence of the member states that mattered most.

#### Domestic Effects for Workers

As expected, as trade barriers fell away and obstacles to investment broke down, foreign firms found it more convenient to trade with and invest in China. This took place just as many state firms suffered crippling losses and collapsed, partly due to competition from non-state firms, but also to a growing degree as a result of competition from imports.<sup>10</sup>

Another issue was that foreign companies were prone to hire young, well-educated workers for their skills, good health, knowhow and energy, and to employ rural migrants for their willingness to serve as drudges for very low wages.<sup>11</sup> Chinese employers reasoned that their older workers would be more costly to employ, as their stamina declined and their medical bills rose; at the same time, their work experience and skills were outmoded and irrelevant.<sup>12</sup> Bosses also considered they could save money by engaging outside (that is, young, educated or migrant) labour rather

than retraining their own workers.<sup>13</sup> As a Chinese WTO negotiator noted: 'There's a popular ceiling of 35 years of age for new jobs.'<sup>14</sup>

Except in a few major industrial bases along the east coast, most of the textile technology in China was by then obsolete, the equipment decades old, the varieties of fabric too plain and unmarketable and the mill workers too undereducated to suit the demands of modern industry.<sup>15</sup> Accordingly, in the textile sector—supposedly a winning industrial sector in foreign trade<sup>16</sup>—millions of mill hands were let go, with the intentional destruction of more than nine million out-of-date spindles by the end of 1999.<sup>17</sup> In the major inland industrial city of Wuhan, where more than 100 state-owned textile mills had existed in the 1980s, not one remained by 2001. In their place were joint ventures, whose new owners demanded the booting out of large numbers of employees. Other firms were merged with more successful plants or simply collapsed, unable to survive under competitive pressures from the burgeoning private sector and foreign firms.<sup>18</sup> In addition, the lowering of tariff and other barriers meant an increase in chemical fibre imports, which put new pressure on the domestic market.<sup>19</sup>

Numerous workers were sacked from plants in a range of other sectors, such as pharmaceuticals, instruments, automobiles, chemicals, petrochemicals, steel, paper and machinery manufacturing.<sup>20</sup> As Thomas Rawski statistically demonstrated, 'large inflows of foreign direct investment, most of it directed toward manufacturing, have not prevented a sharp decline in employment growth among China's secondary industries, a category dominated by manufacturing.'<sup>21</sup> In all, those finding new jobs—whether in foreign-funded banking, information technology, finance and insurance, telecommunications and high technology or assembly-line plants—were not the workers who had lost their posts.

Crucially, another point critical to the process was that, a few years before entry into the WTO, the government began enforcing a policy of cutting back the old workforce to chase efficiency and global competitiveness, as it prepared to make the nation fit into the world economy. In late 1996, following the economy's successful 'soft landing' from a spate of high inflation, the authorities pushed ahead with a program of state enterprise reform that had been on hold for several years.<sup>22</sup> A new policy, called 'grasping the large and letting go the small' (抓大放小), appeared that amounted to selling off small state-owned firms, frequently leaving their employees to fend for themselves on the new open market and without any safety net whatever (see also Ching Kwan Lee's and

Hurst's essays in the present volume).<sup>23</sup> At the Fifteenth Party Congress in September 1997, top officials endorsed the slogan 'cutting the workforce and raising efficiency' (减员增效), which became the new watchword in labour relations.

Already in 2000, a ten-city investigation undertaken by the planning and financial affairs section of the then Ministry of Labour and Social Security found that more than 36 percent of those without jobs had been out of work for over three years, and another 48.5 percent for one to three years.<sup>24</sup> Of these, 89 percent reported that their incomes had fallen, while 56 percent had a monthly income of less than 300 yuan. A mere 3 percent were making 800 yuan per month or more—not a significant sum.

A State Planning and Development Commission investigation that same year uncovered that the *average* monthly income of laid-off or unemployed heads of households was a mere 272 yuan—about 55 percent of the national average urban wage.<sup>25</sup> While the official count of the laid-off and unemployed for the year 2000 amounted to less than twelve million,<sup>26</sup> an internal report suggested that the total number of these people was closer to sixty million by mid-2001.<sup>27</sup>

The All-China Federation of Trade Unions reported, on the basis of local labour department statistics, that there was a trend of annual deterioration in the rate of reemployment of dismissed workers: in 1998, that rate was 50 percent; in 1999, 42 percent; and, in the first eleven months of 2000, it was down to a mere 16 percent.<sup>28</sup> According to a Xinhua News Agency release, the rate plummeted to just 9 percent in the first half of 2002.<sup>29</sup>

As an official journal noted, the unemployed were mostly 'low-quality labour power' who 'will be thoroughly rejected by the labour market and so will form a long-term unstable mass'.<sup>30</sup> A researcher at the Chinese Academy of Social Sciences similarly speculated that these individuals would 'just be excluded and drift downward, with almost no chance to free themselves'.<sup>31</sup> These words turned out to be prophetic and precise.<sup>32</sup>

### Immediate Reactions

For all the reasons noted above—new market measures undertaken by the government to satisfy WTO members, competition, intentional dismissals—unemployment shot skyward and produced massive unrest. Indeed, an internal report of the Ministry of Public Security claimed that 30,000 'mass incidents' occurred in the first nine months of 2000.

The figure included protests of all sorts, but a great many of these were over issues of job loss and unpaid wages and pensions. The conclusion the document drew was that the numbers of outbursts were increasing annually, the scale continuously expanding, the style becoming more violent, the degree of organisation higher, the membership growing more complex and the difficulty in managing them greater.

The overall picture, then, was this: as China entered more fully into the global economy, while millions of better placed citizens rose to the challenge and upgraded their jobs, many millions more sank, their working lives cut short, their potential undeveloped, their situation increasingly desperate and their capacity to purchase any of those enticing products offered up by the world market and its merchants non-existent. Though the state did extend a very inadequate program of social assistance, the Minimum Livelihood Guarantee, to salve the wound of sudden joblessness, even two decades later the majority of the victims of the process remain without steady employment, living in poverty and at a sorry loss.