1. Introduction

China is moving fast on the track of economic development. By all means it is a unique path of capitalist development in the unique global political economic situations of the 21st century and with unique historical and politico-economic situations of China. This is also unique in the sense that even when decisively moving in well defined directions to achieve well defined goals, the state is moving very cautiously after doing experimentations at each step. Special Economic Zones are actually both the laboratories for these experimentations and also the models of the China way of capitalist development.

Various concerns are raised on the China way of development, its sustainability and its impact on Chinese society and on global politics and economics. There is no consensus among global think tanks on what will be the fate of this China way of development. Majority of them present contradictory views, on the one hand saying that this development is not sustainable, and at the same time also saying that the China is emerging as a global power and it will decisively change the balance of power in global politics (which may only happen if development of China is comparatively sustainable).

However, the major concern for us is the overall impact of the China way of development on Chinese people, on Chinese working class. It may prove a sustainable development strategy for the Chinese ruling classes and it may help the Chinese state in emerging as a global power, but what it means for the people of China? Whether it is going to resolve the problems of the Chinese people? Whether it is going to offer sustainable and decent livelihood security for the people? Whether it is going to build a democratic and equitable society with inbuilt systems for distributive justice? Chinese people are raising these concerns continuously. In last two decades there were series of strikes of workers and incidences of peasant unrests exposing the anti-people nature of these development strategies. The right to association and collective bargaining in China is highly restricted because of one political party and one trade union system. Emergence of organized protests of peasants and workers in situations of almost no political freedom reflects on the brutality of conditions that compels them to go on protests and face state repression. In these politico-economic conditions new forms of organizing and struggle of workers and also the peasants are emerging.
This study is a humble attempt to explore on the above issues and contribute in building an overall understanding of the China way of development. The objective of the study is to understand the sufferings, challenges and opportunities before the Chinese working class movement by situating it in the broader context of the China way of development. The study is mainly grounded in the Pearl River Delta and specifically in the Shenzhen Special Economic Zone.

2. A Brief Historical Background

Present always represents both continuity as well as change from the past, and therefore the analysis of present requires some sort of analysis of the past also. Therefore, before attempting to analyze the character of china way of development, let us briefly attempt to trace the historical roots of china way of development.

After revolution in 1949, when China started moving towards an overall socio-economic transformation, like all other colonial and semi-colonial countries, it inherited chronic problems of underdevelopment and distorted development. The agriculture was overburdened with the surplus population. Semi-colonial mode of exploitation had led to deindustrialization in terms of destroying old glorious handicraft industries and compelling huge population of artisans to move in the rural areas swelling the ranks of rural proletariat or semi-proletariat. In these situations the pains of feudal system of exploitation was increased many fold and huge rural populations was thrown in the situations of chronic hunger. Semi-colonial and Feudal system of exploitation in many ways always hampered the industrial development or produced a distorted industrial development (comprador capital) which rather than accelerating overall economic development of the nation, served the interests of colonial capital and feudal socio-economic interests. Therefore, looking at the constraints, overall socio-economic transformation of China was not an easy task. Largely, there were two options available for resolving this problem to accelerate the overall socio-economic transformation:

a) Pro-people development strategy: radical land reforms insuring equitable distribution of land and other resources, cooperative farming and nationalized industrialization with a clear cut focus on primarily building a base of labour intensive manufacturing and light industries and gradually moving to establish the heavy industries with achieving necessary technological development and skilled man power. This was the most effective, most sustainable and most equitable development strategy in the given constraints and the nature of this development also provided a base for further socio-economic transformation and for building a more equitable socialist society.

b) Pro-capital development strategy: transforming feudal mode of agriculture production to capitalist mode of production without equitable distribution of land and other resources, and industrialization based on mixed strategies- nationalized industrialization for heavy industries and infrastructure building based on importing foreign technology and capital plus heavy taxation on people, and private industrialization based on providing huge subsidies and support from the state. This development strategy was in no way a sustainable development strategy and on the other hand it was poised to create severe inequalities and serious problems of poverty and unemployment for huge masses of the people. There were also strong possibilities for this strategy soon leading in to a crisis mainly due to two factors-i) Heavy dependence on foreign capital and technology consuming most of the savings
resources resulting in fiscal crises and depressed the growth of labour intensive light industries which were crucial for resolving the multidimensional problems existing in the labour abundant societies, and ii) Lack of equitable distribution of land and other resources and lack of focus on overall socio-economic transformation leaving no possibility for transforming the huge rural world in an effective market for industrial goods. It was poised to enter in a vicious circle where industry was unable to absorb the surplus population from the overloaded agriculture and thereby hindering the growth of agriculture; and vast rural world overloaded with hungry population was unable to provide and effective market for industrial goods and thereby hindering the growth of industry.

If we look at the national liberation movements of the relevant period, in almost all these movements there were mainly two major political forces advocating either the first or the second development strategy? There were also some political forces advocating some sort of mix of the above two strategies. In Indian liberation movement, firstly the forces advocating pro-capital strategy won and captured the state power, however, the pro people forces were also strong and they continued to put pressure on the state to adopt pro-people development strategies. Therefore the balance of power in this struggle between the two forces framed the pro-people and anti-people elements of the largely pro-capital development strategy followed in India. On the other hand, in liberation movement of China, the forces advocating the pro-people strategy won and captured the state power. After liberation, actually we do not see any other independent political force other than the Communist Party. But, it is actually wrong conception of history that there was only one political force in China after 1949 revolution. It is true that there was only one political party and it was by and large united as one political force during the period of revolution (and to a large extent up till 1958). But after revolution (particularly after 1958), even if there remained only one political party, it was representing two political forces with two visions and missions of future development-one with more focus on pro-people strategy and the other with more focus on pro-capital strategy. To explain in very simplified way, the revolution of China was termed as new democratic revolution precisely because China was a feudal society and before transformation in to the socialist society it had to pass through a phase when capitalist development was to be allowed in strict control of the socialist forces. These two aspects (moving towards socialism and allowing capitalist development) which came out of compulsions of specific objective conditions were the grounds for emergence of two political forces with in the same communist party and also the two visions and missions of the two political forces. Gradually the contradictions between the two political forces grew to the extent that it led to disasters for the Chinese people. If we consider the two political forces, one socialist and the other capitalist (as many China experts say), then we will find revolutions and counter revolutions happening one by one particularly after 1958, and interestingly without the knowledge of the masses (or creating confusions among the masses), precisely because both the political forces represented the same political party and the party in power remained the same.

Therefore, while analyzing the successes and failures of development strategies in China and also of the emergence of current development strategies we should keep in mind the above specific political situations. It is a fact of history that socio-economic development moves at faster rate only if either: a) there is a broader consensus on development strategies among
broader sections of the society and the political forces representing them, or b) the voices of opposition are brutally crushed and some sort of autocracy is established.

This dynamics of consensus and conflict decides the pace and direction of development. We should also keep in mind the complexity of conflicts between two political forces with two development strategies if they are in the same political party rather than representing two political parties (given one party system). This was a negative factor in two respects: a) the people were not able to clearly identify and differentiate between the two political forces and two development strategies, and b) the political forces leading the pro-people strategy were not in a position to fully control the pace of development and therefore had no space to improve the strategies by learning from mistakes.

We can identify three phases of economic development in China after 1949:

**1949 to 1957**

During this period China's achievements on various socio-economic fronts were tremendous. Industrial production increased at an average rate of 19 percent from 1952 to 1957 and national income grew at a rate of 9 percent per year. Industries, banking and transport were nationalized and by 1956 approximately 67.5 percent of all modern industrial enterprises were state owned, and 32.5 percent were under joint public-private ownership. Moreover, the cooperative movement was also initiated to organize handicraft workers and by 1956 almost 92 percent handicraft workers were organized under cooperatives. On the other hand, the agriculture production grew by four percent per year and grain production increased by 3.5 percent per year during the first five year plan period (1953-57). This was mainly the result of radical land reforms followed by cooperative movement. By 1956 about 90 percent farmers were organized under cooperatives. These initiatives were by and large successful in not only transforming the Chinese economy and society but also in resolving the most pressing needs of China in 1950s, i.e., food for its burgeoning population and domestic capital for investment and purchase of crucial technology, equipment and military hardware. It is also worth mentioning that the achievements made on social welfare front, particularly in the field of education and health were amazing and became a part of glory of revolutionary transformation of Chinese society.

But there were two serious problems in the development strategy which started surfacing after 1955:

1. The industrial development was largely based on the strategy adopted in Soviet Russia putting more emphasis on development of heavy industries. It was largely dependent on foreign technology and capital (the support coming from soviet Russia), and extracting more from agriculture. Tremendous achievements were made in this field which was by all means precious to China. It was the support coming from Russia that equipped China with required technologies and the skilled manpower. But because of this strategy China could not put required emphasis on building a base of light and labour intensive industries which were not only required to absorb the huge mass of employed and semi-employed people both in rural as well as urban sectors, but also crucial to support the existence of heavy industries.
Also extracting more from agriculture was not leaving enough space for modernization of agriculture which was needed to increase the agricultural output. As Yang Yao rightly analyses, “with a weak industrial base and few national savings, this strategy had to be aided by distorted price signals, the most significant being the suppression of agricultural prices in order to maintain a low wage workforce. Another consequence of this strategy was the shrinking share of the light industry due to its (heavy industry’s) crowding-out effects. As a result, the heavy industrial sector found itself with less and less demand and the whole economy was locked in a regressive process. The large scale mobility of population also caused serious problems.” Therefore, this was a crisis like situation and drastic steps were urgently needed to resolve these imbalances. If the Russian economic, financial, and technical support was continued for some more time, then it would have been easier to tackle these imbalances. But it was increasingly becoming clear after 1956 that the Russian support may not continue for longer. It was in this background that the Great leap forward was formulated as a daring effort to resolve this crisis by adopting daring strategies of socialist transformation with the support of masses. However, it was happening in a time when the contradiction between the two political forces in the party was heightening and one section was openly opposing the policy of Great Leap Forward.

2. It was realized that the new regime was still unable to win the support of intellectuals and therefore was unable to channel their energies in the collective effort of building new China. The political climate built on one party system was actually not providing enough space for voices of opposition (from outside the party) and therefore also not well suited for participation of intellectuals. The hundred flowers campaign in mid-1956 was started to encourage the participation of intellectuals in the new regime by liberalizing the political climate. But incidentally this was also a phase when the social transformation was moving fast towards socialism and removing all the spaces for ‘allowing capitalist development’. Therefore sharp criticisms of communist party and leaders that emerged during hundred flowers campaign reflected not only the concerns of intellectuals but also the struggle launched by the opposition political forces (inside and outside the party), who still wanted to follow the path of ‘allowing capitalist development’. Had there been a space for multiparty democracy, this would have been a normal opposition compelling the ruling party to correct its mistakes or go to the masses to win support for its policies; with an equal space for the opposition political forces to win the support of masses in favor of their policies. But since there was no multiparty democracy, it resulted in two disasters: one, hundred flowers campaign actually turned in to a trap for intellectuals coming forward with their criticism of state policies. Large numbers of these intellectuals were arrested in the Anti Rightist Campaign which was quickly started when hundred flowers campaign went out of control. Second, both political forces started consolidating themselves in the same party for the decisive battle on the development strategies. It was in this background that deviations of extremism also started growing in the camp of political forces upholding pro-people development strategies, and the leadership ignored the excesses caused by left extremism in the

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face of identifying the major task as fighting against the ‘reactionary’ political forces that were opposing the GLF.

1958-1978

This period can be defined as a phase of decisive struggle between the two political forces with two visions and two missions and therefore proposing to follow two different strategies to resolve the crisis that the China was facing. This struggle was going to finally decide the fate of China in terms of the direction of its development. The two strategies that were proposed by the two political forces to resolve the crisis were set to move the Chinese society in completely opposite directions. The Great leap forward strategy was meant to take a big leap towards establishing a socialist economic system, while the political forces opposing GLF were proposing a strategy that actually meant a big leap towards establishing a capitalist economic system.

What was actually the Great Leap Forward?

The Great Leap Forward Strategy of development was based on the realization that China being a labour surplus and capital scarce economy can not follow the western strategies of development which were suited to capital abundant western economies. It was conceptualized that the China can resolve its crisis; balance the industrial growth and speed up the overall economic development by relying on labour intensive or appropriate technologies and focusing on light industries, rather than relying on capital intensive technologies and focusing on heavy industries. Therefore the focus was on improving the productivity of all Chinese workers, whether in the rural or urban enterprises, by investing in human development and labor-intensive technologies (or intermediate technologies), even at the cost of slowing down the pace of investment in heavy industry.\(^2\)

It was impossible to dream for a success of such large scale development experiments without controlling the mobility of population; and therefore Hukou system of domicile registration established in 1958 was also the part of Great Leap Forward strategy.

It was also conceptualized that many benefits of economies of scale can be realized even by using labour intensive technologies by organizing higher level of well planned socialist production and distribution systems. It was a very aggressive and large scale experiment. Till the end of 1958, about 750,000 agricultural producers' cooperatives (now called production brigades) were amalgamated into about 23,500 communes controlling about 5,000 households (22,000 people) each. The Communes were in control of all the means of production and operated as the sole accounting unit. They were subdivided into production brigades and production teams. The communes were planned as self-supporting communities for agriculture, small-scale local industries like the backyard pig-iron furnaces, schooling, marketing, administration, and also local security through their militia organizations. It was also assumed (and initially it happened also) that commune system of production may not only be most efficient but it may also release additional manpower for

such major projects as irrigation works and hydroelectric dams, which were seen as integral parts of the plan for the simultaneous development of industry and agriculture.³

By all means, there were no inconsistencies in the conceptual framework of this strategy. This was very much rational and suited to the Chinese situations. But the problem was in the practice and in the overall political climate in which it was being practiced. Initially its achievements were also promising. In 1958 industrial output leaped by 55 percent. There was also significant increase in agriculture production.⁴ Huge amount of land was made fertile. There were significant achievements in building irrigation and other infrastructure facilities etc. But the Great Leap Forward faced a major setback the very next year it started and since it was practiced at a large scale, the impact of this setback also came as a disaster. However, huge literature telling about the famines and millions of deaths during the great leap forward is not reliable. No one new until recently about any such thing and it is impossible to hide such a big famine for so many years. Prof Utsa Patnaik provided a very convincing analysis on this issue:

"In general, the thrust of the argument is that that collectivisation produces famine and the absence of a 'free' press as in capitalist countries, prevents anyone outside these countries knowing about it until much later when Western liberal scholars painstakingly uncover the facts through their research. Since collective ownership and production is the very essence of socialist production relations, this appears to constitute a damning indictment of socialism. The picture is complicated by the fact that in China itself, some of those earlier termed the 'capitalist roaders, who were always opposed to egalitarian principles of distribution and wanted to dismantle the rural communes (which were indeed dismantled from 1980 onwards), seized upon the alleged massive "famine" as one argument for an ex post justification for doing so, regardless of the fact that they themselves despite their active involvement in political life were apparently quite ignorant at that time that such a massive famine with 27 to 30 million deaths had taken place in their own country. It would be instructive to look at how exactly this estimate of massive "famine deaths " has been arrived at by the ever busy Western liberal scholars, which estimates have then been assiduously spread by them and by others to discredit socialism and praise the bourgeois press (thereby, incidentally, ensuring a very good press for themselves).

In China in 1959-61 there was indeed a large shortfall in agricultural output, as much as 15 percent from normal in 1959 and 25 percent from normal in the next two years and this decline did in fact coincide with the "Great Leap" when the transition from advanced cooperatives to the peoples' communes took place. At that time a number of reasons including drought in parts of the country, floods in others and attacks of pests were put forward for the output fall. None of the foreign diplomatic corps stationed there or the ideological critics of collectivisation within the Party, at that time suggested there was massive famine. In India too the sixties were difficult years and output shortfall owing to drought in 1964-5 was severe although less so than in China and was combined with rapid inflation which eroded real wages and raised poverty levels to nearly 60 percent according to the available World Bank estimates.

To associate China's economic difficulties with communes formation would be rather like associating

³ China- A country study; http://www.country-data.com/frd/cs/cntoc.html#cn0197

⁴ The Great Leap Forward, 1958-60; http://countrystudies.us/china/88.htm
Indonesia’s 1997-8 economic crisis and collapse with the widespread forest fires which took place at that time.

In short empirical coincidence is not a causal explanation. The same commune system ensured a massive rise in employment, in food security and health security for the rural population in the next two decades. It was not communes which created economic difficulties; rather, it can be argued that without the newly-formed commune’s egalitarian distribution, the exogenous output decline might have had a far more severe impact in and made recovery much slower than it was in fact.

When we look at the estimates of death rate and birth rate for China made by US scholars during the years 1959 to 1961, we find that the death rate rose sharply in a single year, 1960, by as much as 10.8 per thousand compared to 1959. But because China in the single preceding decade of building socialism had reduced its death rate at a much faster rate (from 29 to 12 comparing 1949 and 1958) than India had, this sharp rise to 25.4 in 1960 in China still meant that this “famine” death rate was virtually the same as the prevalent death rate in India which was 24.6 per thousand in 1960, only 0.8 lower. This latter rate being considered quite “normal” for India, has not attracted the slightest criticism. Further, in both the preceding and the succeeding year India’s crude death rate was 8 to 10 per thousand higher than in China. Of course, each economy has to be judged in relation to its own internal performance, and no doubt the rise in the death rate during the worst years of output shortfall is a bad blot for China on its otherwise very impressive record of rapid decline and good food security. But is it correct to say that “famine deaths” totalled as much as 30 million, and is it correct to imply that absence of press freedom meant that China’s then leaders, despite knowing about such massive deaths, were so cynical and depraved that they could mislead the world successfully?

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Most people will accept that in order to qualify to “die” in a famine and become a famine-death victim, it is necessary to be born in the first place. But about 18 million of the estimated 30 million “dead” in China’s famine were not born at all! Most of those non-experts, journalists and others who accept and propagate the ‘massive famine deaths’ in China argument put forward by the academic sophists, do not themselves realise that people who were never born at all, and indeed never conceived at all, are being included to arrive at the 27 to 30 million estimate of “famine deaths” in China. The measurement techniques are designed to mislead, to talk about the “death” of people who were never born. How is this absurd procedure possible? It has come about because not only the rise in the death rate, but also the accompanying sharp fall in the birth rate is being taken into account when estimating “famine deaths”. The birth rate in China declined and fell to a low of 18 per thousand in 1961 compared to 29.2 in 1958. After 1961 it rose faster than it had fallen, to reach a peak of 46 by 1964.

The rise in the death rate during 1959-61 compared to the benchmark year 1958 implies that there was indeed a total excess mortality of 10.5 million persons over the three-year period 1959-61 in China, excess in the sense that if the death rate had remained the same, then the population would have been larger by that many more people. This is the correct estimate of excess deaths, but this order of “famine deaths” is not quite spectacular enough for the liberal scholars. Therefore, the decline in the birth rate which was very steep during these three years, is being taken into account and the children who would have been born if the decline in birth rate had not taken place, are added on by them to the estimate, to arrive at a three times higher estimate which is then called the “missing millions” and identified with “famine deaths”. The fact that at least 18 million of the alleged famine victims were never conceived or born, is a minor point for those who want to talk tendentiously about massive “famine deaths” totalling 30 million in China and thereby discredit collectivisation.

That periods of food shortage do lead to decline in fertility is a fairly well established proposition. Periods of mass mobilisation of males, for military service for example, also get reflected in a decline in the birth rate.
There was no military conscription at this date in peacetime China, but there was massive mobilisation of both male and female workers for a stupendous construction effort during this period of early commune formation. The established peasant family living and work patterns were radically reorganised with the formation of the communes: large bands of men and women set out in teams and brigades for constructing water management systems, cleaning up the environment and eradicating disease-carrying organisms, afforesting hills, terracing and bunding and so on. They spent weeks on the work-sites, and there were communal kitchens and creches to look after children in these years. It is not surprising if this disruption of normal family life in the interests of construction, also contributed greatly to the observed decline in the birth rate as birth decisions were postponed. With stabilisation of the new system, dismantling of communal kitchens and reversion to family life the birth rate again surged to unprecedented heights, peaking at 37.9 in 1964.

On a visit to China in the eighties, at the time the inflated "famine deaths" were being talked about in the West, this author mentioned these estimates and asked some very senior Chinese economists about their own experience of this period. They were extremely surprised and said that while there were cases of more deficiency diseases than usual they were not aware of widespread famine deaths.

Thus in Russia comparing 1994 with 1990 from the data given by an US academic, we find that the death rate rose from 48.8 to 84.1 per thousand able-bodied persons, as that country plunged into "shock therapy" to usher in a capitalist paradise, and succeeded in halving its national income. No one can say that the press is under censorship in Russia today or that the estimates are not known. But not one of those eminent economists who have decried us with their estimates of "famine deaths" during Soviet or Chinese collectivisation, have bothered to apply the same method to current Russian or East European data, nor will they ever do so, for their interest lies not in objectivity, but in a sophisticated vilification of socialism.

The re were three main reasons for the 1959-60 setbacks in great leap forward:

1. The most important reason was the political rivalry between the two political forces trying by all means to justify their own strategy and discredit the opposition’s strategy. On the one hand, anti GLF political forces being in the same communist party were able to affect the practice by creating disturbances. On the other hand, while fighting against the anti-GLF force, the pro-GLF forces were going to the extremes to justify their strategy and they were unable to keep balance. There were so many mistakes in implementation which could not be corrected in time.

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6 “In every new situation, when Mao was proposing a socialist solution, they first dragged their feet and tried to slow down the change or disrupt it. At one time, for instance, they dissolved 30,000 village farming cooperatives in one stroke. But when any movement reached a high tide and couldn’t be stopped by foot dragging, then they jumped in, active as could be, and pushed things to extremes that were equally if not more disruptive. From Liu’s headquarters there came always, consistently, in stage after stage of the revolution, a move, a shift from rightist obstruction to leftist destruction. Whether conscious or not this was the pattern.” (William Hinton, On the Role of Mao, Monthly Review, Volume 56, No.4, 2004; http://www.monthlyreview.org/0904hinton.htm
2. The achievements were many times exaggerated by cadres to score the points in the ongoing political conflict and therefore the mistakes and anarchy in allocation of resources etc could not be corrected timely.

3. Adverse weather conditions in 1959 and 1960 (floods and droughts), and loss of water control projects (they were not properly constructed and got damaged); along with misallocation of resources and shifting of large amount of labour from agriculture to industry resulted in drastic decline in agriculture production and therefore produced an overall crisis.

However, there is no evidence to consider it as a failure of the development strategy of Great Leap Forward. It is also to be noted that the GLF strategy by and large continued till 1976. After 1961, there were some corrections, changes and shifts on its various aspects with the change in the balance of power between the two political forces, there was no overall change in the socio-economic structure of production and distribution.7

Actually it was the effectiveness of this strategy that after correcting some mistakes and making it more balanced, the normal growth in industry as well as agriculture was very soon restored. “Between 1961 and 1966, agricultural output grew at an average rate of 9.6 percent a year. Industrial output was increased in the same years at an average annual rate of 10.6 percent, largely by reviving plants that had operated below capacity after the economic collapse in 1961.”8 Many of the workshops and industries that had been shut down were revived and began to flourish. Initially there had been only five types of small scale rural industries- fertilizer, cement, small iron and steel, agriculture machinery and power stations. These industries provided a good support system for the agriculture which was increasingly adopting modern inputs. With the development of these industries a whole new crop of technical personnel were created and then it became possible to expand rural industrialization to food processing, manufacturing bicycle, textile machinery, textile and other light industries.9

This happened in a situation when the industry was experiencing a serious setback due to sudden withdrawal of all technical support from Russia. In the initial period of Cultural Revolution (1966-69) there was again a downfall in industrial production because of chaotic situations from 1966-69 but it again achieved a growth rate of 10 percent in 1971 and 1972

7 “Important changes in economic policy occurred in later years, but the basic system of ownership, decision-making structure, and development strategy that was forged in the early 1960s was not significantly altered until the reform period of the 1980s.” (China: Readjustment and Recovery, 1961-65; http://www.country-data.com/cgi-bin/query/r-2604.html)


9 Pao-yu Ching, How Sustainable is China’s Agriculture? Special Release, Issue No.8, August 2008, Pesticide Action Network and People’s Coalition on Food Sovereignty
and 13 percent in 1973. The chaotic situation created again in 1974-76 period and the
industrial production again went down.\textsuperscript{10}

With all the setbacks and the problems the achievements made in the period 1958 to 1978
were worth celebrating and few of these achievements are worth mentioning here:

1. Rural industrialization was successful in accomplishing the task of limiting the need
for foreign technology, creating technical capabilities through out rural population,
reducing the social and economic status between urban and rural, industry and
agriculture and reducing the pace of urbanization\textsuperscript{11}

2. Income ratio between urban workers and peasants narrowed from a ratio of 5.5: 1 in
1957 to 3.5:1 in 1975 and to 2.9:1 in 1979. This was despite the fact that the value
added per capita rose much faster in industrial sector than agriculture (4:1 to 8:1)\textsuperscript{12}

3. Food security and self sufficiency in grain was achieved (except in 1959-61 period).

4. Even when China was still a poor country, by the end of 1970s, its health and
education indicators were closer to the developed countries\textsuperscript{13}

5. The social security system based on D anwei system for urban workers and commune
system for rural workers took care of almost all problems lifelong

But it does not mean that all development problems were resolved. China was still a
developing country and its GDP and per capita income was not much higher than other
developing countries like India. One major difference (and that was most precious
difference) was that unlike other developing countries China was more equitable society,
living standard (in terms of security of life, food, education, housing and health etc) of the
Chinese people was higher than other developing countries where during the same period
huge section of population was compelled to live in chronic poverty situations, mass
illiteracy etc. The other most important difference was that the economic development in
China was more balanced in terms of relationship between two sectors of economy-
agriculture and industry. But the task of advanced economic development in terms of
expansion and modernization of industrial base and corresponding technological
advancement in agriculture was same here also as in other developing countries.

It was in this stage that the regime in China was changed. Anti-GLF forces took over the
state power and thereafter the economic development in China moved in a different
direction following a different strategy.

\textsuperscript{10} China: Gang of Four, 1974-76; \url{http://www.country-data.com/cgi-bin/query/r-2715.html}
\textsuperscript{11} Perkins, Dwight, ed., Chairman, the American Rural Small-Scale Industry Delegation, Rural Small-Scale
Industry in the People’s Republic of China, University of California Press, 1977; as quoted in Pao-yu
Ching, How Sustainable is China’s Agriculture? Special Release, Issue No.8, August 2008, Pesticide Action
Network and People’s Coalition on Food Sovereignty
\textsuperscript{12} Perkins, Dwight and Shahid Yusuf, Rural Development in China, A World Bank Publication, The John
Hopkins University Press, 1984; as quoted in Pao-yu Ching, How Sustainable is China’s Agriculture?
Special Release, Issue No.8, August 2008, Pesticide Action Network and People’s Coalition on Food
Sovereignty
\textsuperscript{13} Pao-yu Ching, How Sustainable is China’s Agriculture? Special Release, Issue No.8, August 2008,
Pesticide Action Network and People’s Coalition on Food Sovereignty
The anti-GLF political forces were advocating a strategy which was in essence a capitalist development strategy. Its different aspects emerged gradually and it came in full shape after 1978, however, the direction of the strategy was clear even in their arguments against GLF during its early years, like, 'economics in place of politics in command', 'material awards in place of enthusiasm', and industrialization based on large scale import of western technology etc. All these were actually directed towards the capitalist logic of development. During and after the Great Leap Forward from 1958 to 1978 were the years of decisive struggle between the two political forces and there were revolutions and counter revolutions, in terms of alternatively holding the political power and trying to shift the policies in direction of their own visions and missions. The struggle was so intense that in fighting against anti-GLF political forces the pro-GLF forces also deviated towards left adventurism and probably it was one of the reasons of its defeat after Cultural Revolution.

After the death of Mao in 1976 the pro-GLF forces were finally defeated and anti-GLF political forces captured the power. Only after fully crushing the pro-GLF forces and consolidating their power at all levels in party and government and leaving no space for opposition, the anti-GLF forces in 1978-79 came out with an open plan for ‘market socialism’ that was actually nothing but capitalism.

**1978 Onwards**

In Third Plenum of the National Party Congress's Eleventh Central Committee in December 1978, an overall economic, political, social and cultural reform agenda was formally undertaken by the communist party and on economic front it meant 'substantially increasing the role of market mechanism' and 'reducing the government planning and control'. Naturally the reforms in all other spheres of the society were to be framed in line with and to fulfill the objectives of economic reforms.

Before proceeding to analyze different aspects of China way of capitalist development, it is worth mentioning that with a shift from socialism to capitalism, the socialist past became a curse for the people and asset for the ruling class in new situations. Those who sacrificed most in the socialist society were now in worse situations. The whole generations of youth who sacrificed their studies and carriers and went down to villages to participate in building new China were now in complete loss. The social security system for peasants based on commune system was gone with abolition of communes. The social security system for urban workers based on Danwei system was gone in one hit with the introduction of contract employment system. On the other hand, the socialist past provided ruling class vast opportunities of primitive accumulation. Huge accumulation was done in terms of state savings by abolition of socialist social security system. Moreover, state being the owner of all the land and other resources was able to accumulate huge money by acquiring huge amount of land for industrial development without paying any compensation to the peasants. One most important factor—one party political system which was actually a negative factor in socialist society now became an asset for the new ruling class. After crushing the pro-GLF forces one party system actually created an autocratic state which was able to frame and implement its policies, restructure the economy and allocate the resources in whatever way it wanted without any political challenge and risk of political instability. Socio-economic achievements of socialist period were also favorable in accelerating the capitalist
development. The socio-economic developments in the last decades insured lesser economic disparities and therefore there were better prospects of not only developing the country in a manufacturing hub but also in a huge market for industrial goods. The abundance of educated, disciplined and hard working labour force (including the unemployed youth as reserve army of labour) was also an asset for fast growth of industry. Pro-state one trade union system (and like one party system it was also a negative aspect of socialist society) inherited from the past now acted as a tool of the state to insure an effective control on the labour. The positive factors also insured a major flow of foreign investments when the economy was opened, since they offered prospects for more secure and sustainable profits.

It is also to be noted here that the new ruling class had already learnt a precious lesson from the negative experiences of pro-GLF forces and decided not go too fast and at large scale without experimenting slowly at small scale.

3. China Model of Capitalist Development

The important features of China model of capitalist development can be listed as follows:

i. Authoritarian State of a New kind

Chinese state can not be seen as a simple authoritarian state. Actually many times in ‘form’ it appears more democratic than many so called democratic states in the world, but in content and essence, it is most authoritarian regime. It is a new kind of most creative, most systematic and most effective form of authoritarian state built from the ashes of socialist democratic system.

Let us keep in mind that the socialist system in China was based on a system where the dictatorship of proletariat was exercised through establishing the supremacy of the Communist party in controlling the affairs of the state on a permanent basis. It virtually meant that the state and the communist party were same and inalienable even if in form they were two different identities with two different structures. It was a most democratic system with-in (most democratic forms of decision making in production, distribution and other state and life affairs; most democratic structure of the Communist party), but it was an autocratic system for those out side (who were opposed to the socialist system). Therefore it was easier to oppose the socialist path from with-in (with in the Communist party) rather than from outside. This is why the two strong political forces with two visions and two missions survived in the same communist party, fighting continuously with each other to establish their supremacy in the communist party, in order to establish their supremacy/ monopoly in state power. It is also to be understood that it was not a crude one party system imposed by force. Other political parties were also allowed to function and participate in the elections for the National and Local People's Congresses. But they were strictly monitored and controlled so that they were not able to pose any challenge for the socialist state, its policy and practice (however given their ideologies these parties were with anti-GLF forces). More over, political monopoly of CPC was also ensured by a system of one mass organizational front at national level for workers, women and youth, i.e., All China Federation of Trade Unions, All China Federation of Women, and All China Youth league etc. Various ideologies were to work with in these
organizations rather than forming separate fronts (all local organizations of workers, women and youth were to be linked and registered with these national fronts). However, independent organizations on culture, literature, art, education etc were allowed.\(^{14}\) All these mass organizations by and large accepted the leadership of CPC. It is a truth that the support base of Chinese Communist Party (CPC) was historically unparallel. It was not achieved by any manipulation; it was by all means real mass base achieved by CPC during the liberation struggle. Other parties had no significant support base in comparison to CPC. However, the CPC ensured the participation of these parties (along with other organizations and eminent intellectuals) in all affairs of the state by way of establishing a system of Chinese People’s Political Consultative Conference. This was some sort of alliance or joint front and the purpose was to ensure the participation of these forces in building new China. The emphasis was to avoid confrontation by building consensus and working with each other. This whole system of socialist democracy established a strong hold of the CPC at all levels and all spheres of life.

Now turning to the situations when the development strategy shifted from socialism to capitalism, we find that the state also got transformed from a socialist democracy to authoritarianism. This is very interesting to see how the base of socialist democracy was removed by changing the ‘essence’ and ‘content’ of the political system even when many times ‘forms’ and ‘appearance’ of this system was not changed. Mainly the following were the bases of socialist democracy:

a. Collective and cooperative ownership of means of production, commune and cooperative system of production and distribution
b. Hold of workers and peasants in all spheres of state through Communist party of workers and peasants (more than 80 percent membership coming from workers and peasants)
c. National and Local People’s Congresses with elected representatives, and huge majority of them coming from workers and peasants
d. Higher level of inner party democracy in the communist party and also in the mass organizations ensuring the pro-people socialist direction of development by wider level debates (two line struggles) and challenging the hierarchies

Reforms removed the crucial bases of socialist democracy in following way:

a. Establishing an economic system based on dominant role of state capital (rather than collective) and consistently increasing role of private capital, and state controlled and market driven system of production and distribution
b. Reducing the hold of workers and peasants on the state by transforming the communist party from a workers and peasants party to bourgeois party in two ways-i) ideological transformation (shift towards capitalist development strategy-market socialism with a slogan-becoming rich is glorious) and ii) physical transformation (changing the class composition of membership and drastically reducing the share of workers and peasants in membership)

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\(^{14}\) There were about 100 national social organisation in China in 1978. (Yongnian Zheng, Is Communist Party Rule Sustainable in China? Discussion Paper 22, July 2007, China Policy Institute, University of Nottingham)
c. Completely eliminating the pro-GLF forces from the party, capturing the crucial positions in the party at all levels and removing any scope for opposition at any level, gradually establishing a system of top-down and hierarchical decision making system and removing any scope for wider opposition and two line struggle

By removing these bases of socialist economy and socialist democracy, the socialist society is transformed in a capitalist society even without changing the appearance of the system, i.e. the state power is still in the hands of 'communist' party, system of National and Local People's congresses still rule and govern the country, 'communist' cadres are still governing all affairs of economy, polity and society, communist jargons are still used to justify the capitalist policies etc. The content of every thing is changed but the cover remains the same. This also helped the new rulers to keep the people in persistent illusions so that they believed that the communist party is still communist and socialism still continued in China.

Therefore, ultimately what emerges from the above changes is a new kind of most effective authoritarian regime with following characteristic features:

i. The Communist party is transformed in a bourgeois party with a decisive approach to develop China into a global capitalist superpower and fully link the Chinese economy with global capitalism. The workers and peasants' party is transformed into a party of private entrepreneurs, technocrats, managers, professionals and students. In 1956, the workers and peasants made up 83 percent of membership of the party, but their share decreased to 64 percent in 1981 and 48 percent in 1994, and finally to 29 percent in 2005.15

ii. Party's monopoly in politics and the political system provide all opportunities to further strengthen the hold of party on the state; the state and party became even more inalienable. The CPC is in exceptionally better position to control and crush any voice of opposition. Due to these factors CCP is able to compel the eight political parties (which are part of Chinese People's Political Consultative Conference) to accept its leadership and remain its allies rather than competitors

iii. By virtue of a well defined hierarchical system of cadre management (dangguan ganbu), commonly known as nomenklatura system, the new leaders are well equipped to remove all opposition from within. In nomenklatura system each level of party structure is responsible for political appointments (nomination of candidates) that are two levels below, e.g., all positions above vice ministerial level (state president, vice state president, premier, vice premiers, state counselors and others) fall under the jurisdiction of political bureau of central committee of the party. Nomenklatura system provided all the opportunities for the leadership to exercise full control on

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cadres at lower levels and also to reshuffle the leadership at lower levels as and when required\textsuperscript{16}

iv. With 70.8 million membership and its active presence and control on almost all spheres of polity, economy and society, the CCP is currently most effective bourgeois political party in the world in terms of: a) its overall control on life of the people, b) its capacity for manipulating and manufacturing the consent in favour of state policies by using its huge and sophisticated propaganda machinery, d) its capacity to keep a consistent watch on the activities of the people and their psyche and therefore capacity to get a hint of coming unrest well before

v. The party being also the state is able to effectively block the emergence of any alternative political force, by denying the registration of the party and rejecting the candidatures for National and Local Peoples’ Congresses on various grounds. Most importantly, the CPC prohibits any alternative mass organizations at national level parallel to National Federation of Trade Unions, National Federation of Women and Youth League etc. The trade unions are to be necessarily linked and registered with the national trade union federation which works under the leadership of CCP. The same is true for the organizations of other sections-women and youth. Therefore, in reality the freedom of association and thereby also the political freedom are denied. Actually this is the most effective weapon of CCP to deny any space for emergence of any strong alternative political force. It is almost impossible to build a stable strong alternative political force at national level without strong alternative mass organizations.

vi. The above factors make the Chinese state a comparatively more stable state than other capitalist states in the world. Even if the people’s struggle succeeds in compelling the Chinese state and CCP to provide space for alternative political forces, it may take few decades for any alternative political force to become strong enough to effectively challenge the CCP.

\textbf{ii. Historic Primitive Accumulation by Landlord-Corporate State}

The state in China is the owner of all the land and other natural resources, and it is also the only largest corporate with immense economic and political powers. Due to these factors, the state is able to affect a primitive accumulation which gets its only parallel in eighteenth century British primitive accumulation. In England, the peasants were forcibly evicted in a series of enclosure movements running from 15\textsuperscript{th} to 19\textsuperscript{th} century and in this process a capitalist system of production was established. In China the primitive accumulation (accumulation by dispossession) is affected in following ways:

\begin{itemize}
  \item[a.] Dismantling the Commune system and implementing household responsibility system in agriculture actually amounted to dispossession of all peasants in terms of denying them any land ownership rights and actually converting them in tenants (long term lease). Peasants were compelled to pay
\end{itemize}

numerous levies along with agriculture tax. It was like a large scale systematic open loot of the peasantry, and side by side hidden loot also started in terms of introducing the concept of ‘no free lunch’ and introducing a price based education and health system (currently the cost of education and health are among the major factors behind poverty in rural areas). It led to large scale proletarianisation of peasantry and created a huge reserve army of labour in the form of migrant workers.

b. The land being state owned or collective owned (semi state), there was unparallel primitive accumulation by large scale acquisitions of agriculture land and sale of land use rights to private business. The acquisition of collective land in China only amounts to the transfer of ownership from a semi-state entity to the state by paying some compensation to the peasants in the collective. The value of Land use rights (LURs) after they are acquired by the state is much higher than the money paid as compensation to peasants’ collective in accordance with statutory compensation system. The total compensation payments made on the collective land are generally only a fraction of the amount that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan per mu (approximately one-sixth of an acre), but compensation to the collective was only 28,000 yuan per mu, which would indicate that the expropriating government receives when it sells land use rights to new private users. “In one incident, LURs to expropriated land in Yunnan Province were sold for 150,000 yuan

However, dispossession of peasants in China rather than leading to proletarianisation of peasants created a well to do middle class, and expanded the base of consumer class. These peasants were allotted residential flats in city centers and granted urban Hukou linked with better social security benefits. By virtue of these benefits and the compensation and monthly allowances they received, they were able to lead a better life and provide better education to their children. Many of them sent their children to Europe and America for studies. Therefore the sons and daughters of these peasants are able to get better paid skilled jobs.

This is a major difference in the impact of large scale land acquisitions in China and other third world countries like India. For example in India, the large scale land acquisitions for special economic zones and other urban development purposes led to large scale proletarianisation, since huge section of peasantry owned only small peace of land and received very little amount

of compensation. They were also not provided with any social security benefits. Only a very small section that owned larger tracts of land was benefited. However, in China there was no differentiation in the peasantry, all having equal rights on collective land received equal compensation.

c. The State also accumulated huge amount of money by selling thousands of state owned small enterprises to private capitalists and promoting privatization of state owned enterprises in various ways. Actually it also amounted to dispossession of workers from the ownership of state enterprises. Even those enterprises that remained in the hands of state the managers (and not the workers committees) were given full authority to control all affairs of enterprises, accumulate profits and by all means act like capitalists. Managers are now allowed to retain the profit for further investment and expansion (after giving a standard tax to the state). These Cadre capitalists promoted the privatization of ‘their’ enterprises “by means of stock frauds, back-door deals, bilking government treasuries, and outright theft.”

Many high level cadres also borrowed state funds and plunged into the sea of the market. Since the onset of reform these post-Communist robber barons plunged into a veritable orgy of corruption, embezzlement, bribery, kickbacks, graft, smuggling, currency manipulation, influence peddling, and theft of state funds to amass personal fortunes and privatize state monies, enterprises, and properties.

d. The state also expropriated the urban workers by breaking the iron rice bowl, i.e., guaranteed jobs, state-subsidized housing, free medical care, childcare, free schools, and numerous subsidies etc. More than 37 million workers were laid off (Xiaogang) from the state owned enterprises (SOEs) till 1998. “Between the end of 1992 and the end of 1998, state and urban collective firms together let go some 37 million workers, while the old public sector firms alone cut one-third of their workforce.” These workers were forcefully thrown in the free labour market for exploitation by capital in new system of flexible and contractual employment.

This whole processes of primitive accumulation, on the one hand, helped in accumulating enough capital for boosting capitalist development, and also restructured the economy in terms of building capitalist system of production and distribution; and on the other hand, by way of Proletarianisation of huge section of peasantry, closing


20 Dorothy J Solinger The creation of a new underclass in China and its implications, Environment and Urbanization 2006 18: 177; http://eau.sagepub.com/content/18/1/177.full.pdf
down of hundreds of factories and laying off of 37 million SOE workers, it also created a huge reserve army of both skilled and unskilled workers available in abundance and putting downward pressure on wages for a long time.

iii. The Special Economic Zones as Laboratories and Models of Development

The special economic zones (SEZs) in China are different from those in other parts of the world. SEZs are generally defined as relatively small, geographically separated areas in a country offering especially favorable investment and trade conditions to attract foreign investment and to boost exports. But in China SEZs are much more than this. They are not small walled zones and not only economic zones, they cover whole administrative region, some times the whole province, and they are also special juridical and administrative zones with immense autonomy to enact and implement their own legislations. They are actually the laboratories for searching, testing and full-proofing (with further improvements) economic policies effective enough to lead a capitalist transformation of overall economy along with materializing a fastest possible growth rate. These laboratories are also meant to test the social impact of these policies, and to evolve ways and means to control and tackle the public unrest generated by implementation of these policies. “The four SEZs established in 1980 were quite similar in that they comprised large areas within which the objective was to facilitate broadly based, comprehensive development. They were encouraged to pursue pragmatic and open economic policies, serving as a testing ground for innovative policies that, if proven effective, would be implemented more widely across the country. The emphasis on forward linkages with the world, especially through liberalization of foreign investment and trade relations with capitalist countries, and backward linkages with different parts of China, was very much the rationale for their establishment.”

The Chinese politicians had already learnt from the negative experiences of the Great Leap Forward when the policies for socialist transformation of society and economy were implemented with a faster speed and at a large scale (almost all over the country) without experimenting at small scale, and therefore when it faced a set back, the impact was also at large scale, like a disaster. It happened in a situation when the policies were by and large conceptually correct, and there were no major inconsistencies. Therefore, when the China started moving on a completely opposite path following the pro-capital strategy of development, the new leadership decided to experiment at small scale before moving to large scale. Many important legislations and economic policies were evolved, tested and improved in Special Economic Zones and then implemented all over the country. We can say that these zones are the models of development, which are later replicated in the country as a whole.

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22 In other countries, for example in India, the special economic zones are only a small area (generally walled enclave of 10 to 5000 hectares) with in a locality. The zone autonomy is limited with in the framework of given legislation, and they do not have autonomy to formulate their own legislations and policies. It is actually a case when the governments are not able to fully liberalize the national economy as
It was in 1978 that the China shifted from a pro-people and pro-labour socialist development strategy (GLF) to pro-capital development strategy. In 1979 this strategy came in its full shape and colors. The central committee of communist party and state council in July 1979 authorized the Guangdong and Fujian with more discretion and powers in its economic development affairs in foreign trade, import of technology and foreign investment, and at the same time Shenzhen, Zhuhai, Shantou and Xiamen were declared as special economic zones (SEZs) with features of reliance on market force, preferential treatment to foreign investment and upgraded decision making power equal to provincial authorities. National People’s Congress (NPC) promulgated the provisions on the special economic zones of Guangdong on August 26, 1980 and in 1981, the standing committee of NPC delegated Guangdong and Fujian special legislative powers to enact special economic regulations applicable with in the SEZs in their provinces.23

This is also to be noted that in the same period communes were dismantled and major steps were taken to promote private capital in rural areas. In 1979, private tenure system in agriculture (Household Responsibility System) was introduced (with private plots enlarged) in which the farmers holding the plot were required to supply part of the output to collective procurement, and allowed to consume extra output or sell it in free markets (In 1984 the contract period for lease of private plots was extended from 5 to 15 years and then to 30 years in 1994, with 50 year lease for tree crops). Restrictions on rural markets and nonagricultural activity by farmers were relaxed. However, the ownership of land remained in the hands of the state. Moreover, township and village enterprises (TVEs) were permitted to sell their products at market prices and to retain their own profits. The workers incentives also were linked with the productivity.24

It is interesting to note that various coastal cities were demanding the SEZ status, but initially the decision was taken to restrict the experiment to only four zones in areas where suitable pre-conditions gave a reasonable assurance of success. Also, only Shenzhen was mandated to establish a large-scale "comprehensive" zone involving across-the-board development of industrial, commercial, property and tourist-related undertakings; other zones were limited in size and also the objectives. The two of the zones-Zhuhai and Shenzhen in the Pearl River Delta were selected because of their proximity, respectively to Macao and Hong Kong. The other two, Shantou, on the north Guangdong coast, and Xiamen in southern Fujian are in close proximity to Taiwan and they also offered the potential advantage of an existing commercial, industrial and educational foundation.25

The Zone strategy proved highly successful. “In 1981, the four zones accounted for 59.8 percent of total FDI in China, with Shenzhen accounting for the lion’s share at 50.6 percent and the other three roughly 3 percent each. Three years later, the four SEZs still accounted a whole due to fear of public unrest etc. they are creating these small zones with fully liberalized trade and investment regime.

for 26 percent of China’s total FDI. By the end of 1985, FDI in the four zones totalled US$1.17 billion, or about 20 percent of the national total.”

Based on these early successes, Deng Xiaoping during his celebratory tour of the SEZs in early 1984, called upon the nation to "learn from Shenzhen" and authorized both the expansion in size of the zones and the opening of fourteen additional coastal cities as preferred sites for foreign investment. In following years more and more cities in the Pearl River Delta, the Yangtze River Delta, and the Min Delta in Fujian were opened. In 1988 whole Hainan province (earlier part of Guangdong province) was declared as the fifth Special Economic Zone. In 1990 (after Tiananmen crackdown in 1989), Pudong New District in Shanghai was established to further open the Yangtze River delta for trade and investment.

The Special Economic Zone policy received a further qualitative leap in 1992 when Deng Xiaoping visited the Pearl River delta and called for the bold reform experiments. Then in July 1992, standing committee of NPC authorized the People’s Congress of Shenzhen (and later in 1996 the same status was granted to Zhuhai and Shantou also): “to adopt and implement its own legal regulations within the city in accordance with its concrete situations and actual needs in compliance with the provisions of the constitution as well as the basic principles of national laws and administrative regulations, provided that they are reported to the Standing Committee, the State Council and People’s Congress of Guangdong for the record.”

It is interesting to note that by virtue of above delegated powers the SEZs became so autonomous that they enjoyed more legislative powers than the provincial legislative authorities. SEZs were authorized to enact legislations which merely comply with the constitution, basic principles of laws and administrative regulations of the nation; whereas, the Provincial legislative authorities can enact legislations that shall not contradict the constitution, laws and administrative regulations of the nation.

After 1994, the Special Economic Zones remained no more special in terms that now greater part of the country was opened with the similar policies (newly opened 4 coastal cities were spread from north to south of the country including Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai; and various free trade zones, economic and technological zones and high-tech industrial zones were established in various parts of the country with the similar policies like SEZs), and on the other hand, many policies pioneered in the special economic zones were extended to the whole nation taking the form of national policies, for example,

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26 Wong, 1987, as quoted in Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf

27 Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf


the contract labor and new wage system, and leasehold system of selling land development rights etc. The country began to undertake nationwide reforms in tax remission, foreign exchange control, and foreign trade regulation in accordance with the policies developed in SEZs.

iv. Main Elements of the SEZ Model and Success Story of the Shenzhen

a) Autonomous Mini State, Focus on Overall Socio-Economic Transformation

As we have already discussed that unlike in other countries of the world, the special economic zone strategy in China was not for building only an export oriented industrial complex, but it was meant to an overall capitalist transformation of whole economy and society. The huge territories were declared as special economic zones with different sectors of economy and with huge population of different sections of people. The zones were meant to lead multidimensional transformation to build a highly developed capitalist economy of the region giving impetus and providing well tested strategies for overall transformation of the national economy and society. Shenzhen SEZ was most important among all SEZs with greater powers and space for experimentations.

In 1979, Shenzhen was a small rural and fishing region. There was neither any industrial base nor any infrastructural development. Initially the zone extended to about 327.5 square kilometers in area, stretching forty-nine miles along the border of Hong Kong's New Territories. The population of the zone in 1981 was 98,000, out of a total municipal population of 300,000. In the draft twenty year development plan released in 1982, the main focus of the zone was on industrial development, preferably technology-intensive in character, but simultaneously promoting agriculture, tourism, and trade. 98 square kilometers area was available for urban development and out of which 15 square kilometers were for industrial development. The zone was further divided into eighteen districts and these districts were to be developed on a self-financing basis. The amended five-year development plan of 1984 further increased the area of the zone and the plan was to gradually absorb the newly rising industrial and commercial districts of Luohu, Shangbu, Futian and Shekou.30

Shenzhen zone enjoyed special additional administrative powers and freedom in framing and implementing new policies and development measures. “In 1981, the Guangdong Provincial Party Committee granted Shenzhen the same political status as Guangzhou, the provincial capital (CCPR, 1987, p. 53), and in 1988 it was upgraded to the level of a province for economic planning purposes (Sklair, 1991, p. 203). Furthermore, Shenzhen was exempted from the requirement of submitting tax revenues to the central and provincial governments over its first 10 years, an unparalleled advantage that allowed it to experiment with whatever policies and practices it deemed expedient to vitalize the economy (Zhu, 1996, p. 189).”31


31 Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf
Later in 1992, all the zones were provided with unrestricted autonomy in terms of framing policies and enacting various legislations as per the need of the specific conditions.

Full control and freedom to deploy and utilize all resources of the region including human resources, and unrestricted freedom to explore and act played a crucial role in success story of the zones. Shenzhen achieved many successful policy breakthroughs which later developed as national policies. Some of the major policy achievements that played a crucial role in development of the zones and also in national transformation when they adopted as national policies can be listed as follows:

1. The implementation of a contract labor and new wage system
2. Commercializing the land use rights following the Hong Kong leasehold system of selling land development rights for a specific period for a premium with ownership of land remaining in the hands of the state
3. New Residence Permit system for migrant rural workers with some access to social security benefits (education and health)

(see the box below for various policy innovations in various zones)

These and similar other policies played an important role in economic development of the zones. The contract labour and wage system and some sort of social protection extended to migrant workers made it possible to build a system for flexible use of labour and also to put sustained downward pressure on wages for maximizing the profits. Land lease policy made it easy to acquire huge amount of rural land for urban development and provided immense opportunities for capital accumulation by selling the land use rights.

Shenzhen from the beginning relied more on the private sector for the development of the zone. In the early 1980s, non-state capital contributed 56.0 percent of the total capital investment of RMB 1.03 billion, while the funds from the central and local governments only accounted for 20.4 percent. Shenzhen was very soon successful in establishing a base of labour intensive manufacturing. However, the real transformation took place only after 1984 with greater focus on high road development of the zones and overall emphasis on technological development.

Major initiatives were taken not only to build physical infrastructure of the zone but also to generate a pool of educated and skilled workers. Along with R&D, greater emphasis was put of expanding the infrastructure of quality education relying more on private sector. In 1994 Guangdong provincial Government report stressed the need to quicken the pace of development of higher education and emphasised the significance of decentralised control over the educational realm. It is to be noted that privatisation of education was already in place and there were already thousands of kindergartens, primary and secondary schools and tertiary Institutes. It is also worth referring that in pearl river delta one model for generate funds to support educational development was to charge fee in advance (for several years), which drastically increased the burden of educational expenses on parents.

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“Shenzhen’s forward and backward linkages have encompassed a large number of foreign and domestically funded enterprises capable of synergistic learning. In 1985, 409 industrial projects operated in Shenzhen, more than 70 percent of which had domestic linkages (Wong, 1987, p. 37). One decade later, by late 1995, the number of domestic projects alone had increased to 1,400, and the number of joint ventures to nearly 9,000, manufacturing more than RMB 1 billion worth of products (Ge, 1999a, p.113). The side-by-side operation of domestic and foreign enterprises proved conducive to the diffusion of technologies.”

Shenzhen emerged as most favored destination for foreign direct investments in China because of innovative and attractive policies in terms of streamlined administrative control, relative independence for local planning authorities, direct access by foreign entrepreneurs to provincial- and central-level planning units, tax breaks, reduced duties on imported equipment and production materials, free or low-rent business accommodation, flexibility in hiring and firing workers, depreciation allowances, negotiated limited access to the domestic Chinese market for goods produced within the SEZ, and residence and work permits and income tax exemption for foreigners working within the SEZ. In most years Shenzhen’s FDI intake exceeded that of any other single province or municipality in China, including Shanghai and Beijing. Shenzhen also emerged as the leading exporting city in China and in 2006-07, it accounted for about 14 percent of China’s total exports. Patterns in the source of foreign investments also changed. In the first phase Hong Kong and Macao were the dominant sources of foreign investment, but 2008 FDI inflows came from as many as 82 countries, involving 148 Fortune 500 companies.

After only one and a half decade, Shenzhen emerged as an advanced manufacturing hub and its competitive advantage was felt at international level at least in electronic goods and by 1998, high-tech industries accounted for almost 40 percent of the industrial output within Shenzhen SEZ. In 2008 Shenzhen’s industries produced almost one-third of Guangdong Province’s industrial profits. Moreover, many Chinese-patented products gained large international market shares, such as Huawei and ZTE Corporation telecommunications equipment, as well as Great Wall computers. Shenzhen registered 2,480 new patents in 2008.

Also, in terms of over all socio-economic development of the region, Shenzhen’s achievements are worth celebrating. In 2008, Shenzhen ranked second overall (after Hong Kong) among over 200 Chinese cities in the Annual Report on Urban Competitiveness and fourth in the science and technology sub-index.

Transformation in the sectoral composition of GDP is most reflective of overall transformation of Shenzhen economy and society. There is a consistent and rapid decline.

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in the share of agriculture and consistent rise in the share of industry in the Shenzhen’s GDP. “The share of the primary sector in Shenzhen’s total GDP plummeted from 37.0 percent in 1978 to 4.1 percent (1990), and then to 0.1 percent in 2007. Agriculture’s decline was compensated by growth in the shares of the secondary sector (from 20.5 percent in 1978 to 50.1 percent in 2007) and the tertiary sector (42.5 percent in 1978 to 49.8 percent in 2007) (SBSZ, 2008). More specifically, by the start of the 11th Five-Year Plan (2006–2010), Shenzhen’s economy could be described as supported by four economic “pillars”: high-technology industrialization, logistics, finance, and the culture industry (e.g., tourism, entertainment, educational materials, and the mass media) (Huang, 2008).”

It is worth mentioning that Shenzhen’s GDP in 1981 was only 0.9 percent of Hong Kong’s, but it reached to 34 percent of Hong Kong’s by 2005. Per capita GDP of Shenzhen was 11.4 percent of Hong Kong’s and it reached to 28.5 percent of Hong Kong’s in 2005. Now this is becoming a trend that more and more Hong Kongians prefer work and live in Shenzhen.

In the field of agriculture also there are significant achievements of Shenzhen in terms of increasing the productivity by technological advancements. Urban farms and aquaculture farms in Shenzhen contributed significantly towards achieving self sufficiency in food production and in a situation of decreasing availability of agriculture land and growing urban population. “In 2005, Guangdong province (which hosts the Shenzhen SEZ) achieved a gross agricultural output of 242.28 billion RMB, with a value-added of 142.18 billion RMB, an annual per capita income of 4,690.5 RMB for rural residents, an import/export volume of 7.456 billion USD for agricultural products (including agricultural products according to WTO categorization and aquatic products), of which 3.574 billion USD was attributed to export.”

b) Commercializing the Land Use Rights:

In 1982, Guangdong provincial government adopted a provisional regulation on land management in Shenzhen to legalise the transfer of land rights from the government to private enterprises with terms for compensation. In adopting this regulation, the provincial government actually disregarded the constitutional provisions that prohibited appropriation, purchase, lease or any other transaction of land, and thereby it was an obstacle to the efficient allocation of natural resources under the market discipline. In 1987 the Guangdong people’s congress codified this provisional regulation and further extended its scope to transfer the land use rights through contract, bid or even auction. Later this legislation was developed in to a national legislation; the constitution was amended to recognise the transferability of land use rights all over the country. By virtue of these regulations Shenzhen was able to accumulate huge amount of capital for investment. The sum received from land transfer in Guangdong in 1992 was RMB 9.4 billion, accounting about 40 percent of total

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37 Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manager/ziliao/China%26_039.pdf
revenue of the province that year, and exceeded annual fiscal revenue of the most of the provinces of the nation.\textsuperscript{39}

The sale of land development rights has spurred urban development across the country, as nearly every city and county in China used a variant of this practice as a means of raising capital for infrastructure and economic development. China’s rapid urban development over the past two decades can be traced to this landmark event.\textsuperscript{40}

C) Exploiting the Migrant Labour

It will not be an exaggeration to say that without this systematic inhuman exploitation of migrant workers it would have never been possible for China to achieve such fast rate of growth. The huge wealth of new Chinese monarchy is created from the tears and blood of huge mass of pauperised and proletarianised peasantry.

The cost of rural migrant labour is estimated to be only about 40 percent of the cost of regular urban labour (excluding many hidden subsidies provided to urban residents. Lack of local hukou status actually results in significantly less payment to migrant workers than local workers. Premier Wen Jiaobao himself accepted in 2003 that millions of migrant workers were routinely not paid on time or not paid at all\textsuperscript{41}.

It is interesting to note that this Hukou system was established in 1958 and was part of the Great Leap Forward model of development. The purpose of this system was to control the mobility of the population so that there can be a planned and efficient utilization of all resources, planned development and planned movement towards reducing the rural-urban gap. It is also to be kept in mind that the Hukou system then was also associated with the Commune system of social security. Later, particularly after 1978 the new development strategy was adopted, the commune system was dismantled and household responsibility system was established. In cities also the Iron Rice Bowl system of social security was soon dismantled. Great Leap Forward was analysed as a disaster. But then also the one party system and one trade union system was not dismantled, monopoly of state over all resources including land was not dismantled and interestingly the Hukou system was also not dismantled. Why? This was only because the fastest rate of capitalist development can be achieved only by maintaining a stable and most autocratic rule, unchallenged authority for utilization and allocation of all resources including human labour, and effective control over social relations including the labour relations. Hukou system provided full control of the state on the people, on their life, their work and their mobility, and therefore full control of


\textsuperscript{40} Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf

the state in allocation, deployment and exploitation of human resources, specifically the human labour.

Dismantling of the communes and introduction of household responsibility system, dismantling of the socialist social security system, privatization and commercialization of education and health sector and large scale land acquisitions for industrialization and urbanization led both directly and indirectly to large scale proletarianisation of peasantry and other sections of workers and emergence of huge reserve army of labour, in the form of migrant workers. The vulnerability of migrant labour in China is more than in any other country in the sense that the Hukou system of domicile registration does not allow the rural migrants to settle in the urban centers, and they are also discriminated in providing social security benefits. It is interesting to note that to exploit the vulnerability of migrant workers they were allowed to work in the urban industrial centers, but they were denied hukou of those urban centers by all means. In 1992 it was estimated that there were about 4.5 million reserve army of mobile migrant workers (more than 60 percent women) in Pearl River Delta. The number of migrant workers in Shenzhen is now more than 10 million. The local population including the local workers is only 3 million and it includes mainly the former local fish workers and peasants and also the early arrivals (initial migrants). Distinction between rural and urban Hukou was abolished in Shenzhen (as also in many other zones) and therefore there are only two categories now-local kukou workers and non-local hukou migrant workers. Therefore all the local population including the fish workers and peasants were benefited by getting urban hukou social security. Peasants received additional monitory compensation and residential flats in Shenzhen down town. This made the former peasants comparatively prosperous and they were able to provide better education to their children and lead a middleclass life. Many peasants sent their children to abroad (Europe and America) for education. Therefore the former peasants in Shenzhen are not among the common workers but mainly in upper strata like managers, engineers etc. By virtue of local urban hukou linked social security benefits the other sections of local workers are also better off than the migrant workers, they are also better paid, since they are in a position to get better education and acquire skills.

It is evident that an immense opportunity to exploit vulnerable migrant labour was one of the most important factors in building the Shenzhen’s comparative advantage. Probably this was one of the reasons why in 2008, mainly to solve the problem of labour scarcity, Shenzhen took initiative (for the first time in China) for a new residence permit system for

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42 The problem of labour scarcity: The labour shortage problem started surfacing particularly from 2004. It is becoming so serious that according to official reports, Shenzhen alone faced a labour shortage of more than 300,000 workers. A combination of factors played a role behind this shortage. Government’s recent emphasis on developing poor inland provinces and launching housing and infrastructure projects, along with an overall fast pace of industrialization and urbanization taking place all over China, created more options for workers to find a job closure to their homes. Elimination of agriculture tax also provided an impetus to go back to their farms. To some extent, the problem of aging population on the one hand and new generation’s emphasis on getting skills before going to work, also contributed this shortage. And the overall problem was aggravated after the financial crisis, which led to mass dismissal of migrant workers. More than 30 million dismissed migrant workers went back to their home provinces and did not come back again.
migrant workers. However, it does not change their status, they remain as migrants and most vulnerable section of workers, mainly employed in low paid, highly labour intensive and hazardous works conditions. The new residence permit system only allows them to receive few minimum social security benefits.

The stories of migrant workers are full of pains and tears. In the initial phase, say till 1990s millions of migrant couples working in the industrial centers were compelled to leave their children in villages because hukou system denied them access to the education in those urban areas. Later many initiatives were taken to provide some relief to migrants and their children and a shift in terms of more and more couple migrating with their children was recorded, but after the financial crisis the trend was again reversed. This is because even if new initiatives in particularly Shenzhen and other zones to provide relief to migrants especially in access to education and health, generally the overall situation remains the same and migrants have to bear heavy costs (legal and illegal) in accessing these services.

The conditions of migrant workers can change only by getting the local hukou, but then the advantage of exploiting low cost vulnerable workers will be lost. Therefore, even if there are initiatives to provide some social security benefits to the workers, the state is in no hurry to do any thing to abolish the hukou system or liberally grant the local hukou to migrant workers. Only for small towns where the state provided welfare is minimal, little easy hukou conversion is introduced. The local governments have the full control on deciding the hukou conversion and they are offering the local hukou to only those who have money (investors and home buyers) or skills in need.

d) Joint Ventures as the Main Form of Boosting Foreign Investment
Shenzhen’s success story is most celebrating, since it started from almost zero and only in two decades emerged as one of the most developed regions in the China. One of the important factors behind this success was the innovative joint venture approach of the state capital (which is the monopoly capital and with complete control on all economic matters and all local resources-land, labour and capital) to boost foreign investment in the zone.

It is worth mentioning that the whole development strategy from the beginning had to rely on the foreign investment and 1982 Shenzhen master plan was based on the assumption that 58 percent of the total zone investment costs (US$7.2 billion) through the year 2000 would come from foreign sources. It was also by and large successful in achieving this goal. Much of this investment was through infrastructural joint ventures, especially through large-scale tract development contracts. Most of the joint venture projects included key infrastructural components in addition to industrial and commercial development plans. In 1985, it was reported that a total of US$2 billion of investment had been pledged to the zones through some 4,700 economic cooperation agreements, an amount constituting over 40 per cent of the total pledged foreign direct investment in China. The Shenzhen SEZ was most successful in this regard accounting for US$580 million or 67.5 per cent of total actual investment through 1984 and over 75 per cent of the total number of economic cooperation agreements. A steady annual increase was recorded in the number of project agreements signed with foreign businessmen, with a slight leveling off in 1981-1982 as consequence of political uncertainties in Hong Kong and the resulting collapse of the Hong Kong property market. The dollar volume of foreign investment also rose steeply from 1979 to its peak in 1981, then declining sharply in 1982 and resuming an upwards trend again in 1983 reaching
peak in 1984. If we look at the partial breakdown of agreements, a strong predominance of small processing and assembly agreements, with the more elaborate and more desired contractual or equity joint ventures is clearly evident running on average at about 18 per cent of the total number of agreements. The increasing number of joint ventures also reflected on the growing confidence of the foreign investing community in the legal and administrative reforms undertaken in the special economic zones. It is here we can understand the role of innovative policies and legislation enacted in Shenzhen that helped it in getting a clear lead over all other zones. Shenzhen SEZ dominated the equity joint venture scene with its 127 joint ventures between 1979 and 1983 amounting to 67.6 per cent of the total number of equity joint ventures signed nation-wide. In the breakdown of the Shenzhen's total investments by sector, both in terms of number of agreements and in terms of actual investment, manufacturing emerged as the largest single category with 43.6 per cent of the total, followed by real estate development with just over a quarter of total actual investment. Average annual increase in industrial output in Shenzhen was 56.4 per cent between 1979 and 1983, and 100 per cent between 1983 and 1984, and foreign enterprises and Sino-foreign joint ventures accounting for 53 per cent of total output value in 1983. About 80,000 new jobs were created in Shenzhen by the fall of 1984 (not including the over 100,000 transient workers involved in the construction of the SEZ) and out of this 10,000 were directly created by the 96 wholly owned foreign enterprises and 202 joint ventures in the SEZ.43

There are two types of joint ventures in the manufacturing in China: Sino-Foreign Cooperative Joint Venture (CJV), and Sino-Foreign Equity Joint Venture (EJV). The first one is the China invention and the later one is modern form of joint venture generally practiced all over the world. In EJV, both local and foreign companies invest in the joint venture with the foreign company, not investing less than 25% of the total investment. But there is no minimal investment requirement for the Chinese company. The investments may include cash, intellectual property rights, technology, buildings and materials and equipments. In case of CJV, the Chinese company provides the labour, land use rights and factory buildings, while the foreign company brings in necessary technology and key equipments as well as the capital.44

However, in the initial phases especially in 1979-80 and generally till 1984, the nature this CJV had almost no technology content and the manufacturing was based on the technology of 1960s. The nature of manufacturing was more of the nature of low end labour intensive assembling and processing jobs. Therefore the joint ventures were actually in the nature of San-Lai-Yi-Bu-some sort of arrangement in which the foreign company provided materials and designs and the local company did the processing job. Foreign company provided the parts and components and the local company had to do the assembling job. The processing jobs included items ranging from garments, metal and plastics to agricultural produce such as vegetables, fresh water prawns and fishes. It was like China becoming a job work center of Hong Kong and Macao companies, since most of these investments came from Hong Kong and Macao (During this period Hong Kong was experiencing tremendous inflationary pressure both in terms of rising real wages and escalating land prices, and probably this


44 http://www.chinaorbit.com/china-economy/china-joint-venture.html
factor also played a role in shifting the assembling and processing jobs from Hong Kong to China.\textsuperscript{45}

But after 1984, with increasing emphasis on technological development, the special economic zones were successful in speedy transformation in terms of modernization of whole manufacturing sector. With this there was also a transformation in the nature of joint ventures and actually the joint ventures played an important role in technology transfer. However, San-Lai-yu-bu nature of joint ventures did not disappear altogether; rather they shifted to the hinterlands of the zone (compelled with rising labour costs in the zones). Actually the Zone companies later also established the similar kind of relationship with the hinterland companies. Actually this form of sub-contracting from the zones to the hinterland acted as an important stimulus to local economic growth. Similar putting-out arrangements have been built into a number of joint venture contracts signed by SEZ companies and hinterland companies.

“Shenzhen’s forward and backward linkages have encompassed a large number of foreign and domestically funded enterprises capable of synergistic learning. In 1985, 409 industrial projects operated in Shenzhen, more than 70 percent of which had domestic linkages. One decade later, by late 1995, the number of domestic projects alone had increased to 1,400, and the number of joint ventures to nearly 9,000, manufacturing more than RMB 1 billion worth of products. The side-by-side operation of domestic and foreign enterprises proved conducive to the diffusion of technologies.”\textsuperscript{46}

The FDI into China reached a peak of $111,436 million in 1993 with 83,437 new contracts in 1993. The greatest growth has been in the number and value of joint venture contracts and many times there were explicit conditions of technology sharing.\textsuperscript{47}

e) High Road for Capital and Low Road for Labour

It is a wrong conception that China is following a low road model in overall terms. Actually the low road start was a compulsion given the scarcity of capital and technology and abundance of labour. But the direction of development was always set to move towards high road. The emphasis on high road was such that even when the achievements in the first phase (1978-84) were worth celebrating in terms of fast expansion of manufacturing base, development of infrastructure, creation of employment and growth in GDP, the Chinese leaders in 1984 made sharp critique of the zone strategies and clearly said that the Special Economic Zones were not being developed only for the purpose of providing jobs, and also


\textsuperscript{46} Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf

\textsuperscript{47} Technology Transfer to China; http://www.bis.doc.gov/defenseindustrialbaseprograms/osies/defmarketsearchrpts/techtransfer2prc.html
not merely to increase the industrial output, rather, the zones were meant to develop export oriented industrial structures based on advanced technology, which was key to export competitiveness and technology transfer.

Therefore after 1984 there was a greater emphasis on technology transfer and developing technological competitiveness of industries. Technology transfer was actually one of the important elements in joint ventures with foreign enterprises. It is also worth mentioning that the system of incentives for foreign investors was designed in such a way to promote high tech investments and those investments with better opportunities of technology sharing. The all round emphasis was on wai yin nei lian, i.e., import of foreign funds and technology and their linkage with domestic resources-establishing ties between zone and non zone economies.48

The investment policies explicitly made various sector-categories for foreign investments to be prohibited, permitted or encouraged. The type of foreign investment encouraged was that focusing on advanced technology. Foreign investors in high-tech industries were offered preferential treatment, such as tax rebates and lower tariff rates as incentive to transfer technology. Not only this, policies frequently included explicit provisions for technology transfers in the form of local content requirements, production export quotas, and/or collaboration in production, research or training.49

Along with the greater emphasis on science and technology at national level50, leading domestic firms also deliberately put greater emphasis on research and development. The 14 coastal cities opened in 1984 were purposely declared Economic and Technological Development Zones. Foreign companies were also encouraged (and some times compelled) to contribute in the R&D.

It was the result of this emphasis on technological development that is reflected in the achievement of China as a nation and special economic zones (especially Shenzhen) in the field of research. “The number of patents registered in China as a whole has increased rapidly; in 2007, China authorized 351,782 patents, up 31.3 percent from the previous year. In 2008, the number grew further to 411,982 (SIPO, 2009), a trajectory that puts it on a path to overtake Japan (the current world leader in new patents) by 2012 (Fox, 2008). Within


49 Technology Transfer to China: http://www.bis.doc.gov/defenseindustrialbaseprograms/osies/defmarketresearchrpts/techtransfer2prc.html

50 The number of researchers in China increased 77 percent between 1995 and 2004. In 2006, China achieved the second ranking (only after US having 1.3 million researchers) in the world with 926,000 researchers. Research and development intensity ratio in China was 1.1% in 2001, compared with the European Union’s ratio of 1.9% (Japan’s 3.1% and United States’ 2.7%). (Organisation for Economic Cooperation and Development (OECD), Science, Technology and Industry Outlook, 10 (2006), http://213.253.134.43/ece/pdf/browseit/9206081E.PDF; and David Orozco, Will India and China Profit from Technological Innovation?, http://www.law.northwestern.edu/journals/njitip/v5/n3/2/)
China, Shenzhen ranked first among all Chinese cities in 2008, registering 2,480 new patents.\textsuperscript{51}

It is a fact that the foreign firms and entrepreneurs certainly played an important role in upgrading the technological content of the Zone outputs, but the above developments clearly show that the role of the domestic forces can not be underestimated.

“The Shenzhen High-Tech Industrial Park, one of five state-level high-tech parks in China, was established in Nanshan District in 1996. It focuses on the development of key industries in telecommunications, computers, electronics, bioengineering, and networking. Of the Park’s total value of industrial output of RMB 71.9 billion in 2002, high-tech output accounted for RMB 69.2 billion.”\textsuperscript{52}

The impact of these developments was also felt in an overall transformation of the economy particularly in terms of technological advancement in manufacturing and in general technological advancement of the special economic zones and also in the nature of the exports. “By 1998, high-tech industries accounted for almost 40 percent of the industrial output within Shenzhen SEZ, reflecting the goal since the late 1980s of moving toward a more technology intensive, higher-value-added stage of development. Many Chinese-patented products have large international market shares, such as Huawei and ZTE Corporation telecommunications equipment, as well as Great Wall computers.”\textsuperscript{53}

It is also worth mentioning that by 1998 the competitive advantage of Shenzhen was felt at international level, with Shenzhen alone accounting for 14 percent of world output of floppy disks, 6.2 percent of PC motherboards, 8 percent of hard disk drives, and 10 percent in magnetic heads. In the domestic market it had already acquired a superior position and produced 70 percent of liquid crystal displays (LCDs), 33 percent of digital wireless telephones, 30 percent of personal computers, and 85 percent of the floppy disks.\textsuperscript{54}

But it does not mean that the whole economic development in China is high road. Actually the high road in the capitalist development mostly forms the Centre which depends on the surrounding low road peripheries. These peripheries may be shifted to the hinterlands of the same country or to other labour abundant countries. China being a huge country with huge population and still with abundance of labour, the development strategy presents an interlinked system of high road and low road. There is a slogan-Wai Yin Nei Lian-emphasizing import of foreign funds and technology and their linkage with domestic resources, and also building ties between zone and non-zone economies. The division of

\textsuperscript{51} Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf

\textsuperscript{52} Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf

\textsuperscript{53} Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf

\textsuperscript{54} Yue-man Yeung, Joanna Lee, and Gordon Kee1, China’s Special Economic Zones at 30, Eurasian Geography and Economics, 2009, 50, No. 2; http://www.espre.cn/111/manage/ziliao/China%26_039.pdf
labour in the Pearl River Delta was to be such that the hinterland supplied raw materials and intermediate processed goods to the zone and the zones assembled the finished products for export. After 1984, this model started taking shape (before that the situation was more like the zone was largely acting as a hinterland of Hong Kong in terms of division of labour). With the economic and technological advancement of the zones more and more labour intensive industries started shifting to the hinterlands in search of cheap labour. This form of sub-contracting from the zones to the hinterland actually provided an important stimulus to the economic transformation and growth in hinterlands. The former Baoan County gradually developed in one such hinterland periphery of the Shenzhen SEZ.\textsuperscript{55}

However, if we analyse the growth model with the perspective of labour, it is consciously pressed to remain low road. Technological advancement of the production and fast rate of growth is not accompanied with comparable increase in the wages and overall working and living conditions of the workers. Recent hue and cry over the wage increase in China is largely illusionary. In monetary terms there is a significant wage increase, and it actually reflects the impact of high road growth model, but with increasing cost of living there is very little increase in real wages. The policy factor is more important. The wages are not increasing because of low wage policy of the government. Two policies of the state insure the growth model to remain as low road for labour; a) exploiting the vulnerability of migrant workers (not abolishing Hukou system and not granting local Hukou to migrant workers), b) denying right to association and collective bargaining to workers. With these two policies, the normal dynamics of industrial relations can not appear and the improvements in the wages and working conditions remain artificially blocked.

5. Legal framework of Industrial Relations Regime

Lifelong job security and social security was the most important characteristic feature of the labour policy of the socialist period. But this was not suited to the pro-capital development strategies adopted after 1978. Therefore, like in other social, political and economic spheres, a pro-capital labour policy was also gradually evolved. The decisive direction of the labour policy was to achieve the following objectives:

i. Flexible and efficient use of labour for profit maximization
ii. Maintaining a reserve army of floating labour
iii. Effective control over labour mobility and labour relations
iv. Some sort of social security for workers to enable them to survive in situations of intermittent periods of employment and unemployment

The crucial elements of the policy were experimented and tested in Shenzhen and other special economic zones before framing a national legislation. As we know that the special economic zones enjoyed unrestricted autonomy in terms of allocation of resources in their region and to enact and experiment various legislations and policies best suited to specific needs of the pro-capital development strategy adopted in the zones. The zones and

particularly Shenzhen SEZ contributed significantly in evolving various aspects of legal system and particularly the labour legislation. National legislation was evolved by synthesizing the experiences of special economic zones and after enacting national legislations, the zone legislations lost their meaning, the whole country including the zones came under the uniform national legislations. This process is consistently practiced in evolution of various labour legislations. However, even after the national legislation comes in to existence, the special economic zones have the powers to give their interpretations to the laws and also to make their own regulations; and therefore, the zones may not implement all the aspects of labour laws and also in the manner it is demanded in the labour law. They follow the broader framework of the law but retain their autonomy to experiment and implement the laws as per their specific needs.

We can briefly discuss here the major breakthroughs in the evolution of the labour legislation in China and critically examine its important aspects.

**National Conference on Labor and Employment 1980:** A new labor policy framework named “three-in-one” (sanjiehe) was introduced, allowing job placement through the introduction of labor bureaus, through workers' voluntary organizations, and through self employment. To foster the growth of the labor market job retraining centers, labor service companies (laodong fuwu gongsi) and public employment agencies were set up. Rigid employment and wage system was reformed and bonuses and awards were introduced to enhance workers' productivity, and wages were linked to performance.  

**Labour Contract System and productivity incentive based wage system (1980 onwards):** These were initially experimented in Shenzhen and then other SEZs and later introduces in other parts of the country.

**Ban on Strikes 1982 onwards:** The right to strike was a fundamental right of the workers in socialist China and even during the Great Leap Forward. Strikes were banned only after the China shifted from socialist development strategy to capitalist development strategy. In 1982, the right to strike was removed from the constitution. However, when the working class of China with its great sacrifices made the strikes a reality and general phenomenon, then the labour laws and the trade union act of 2001 also accepted it a reality by calling it work stoppages. The present status of law actually neither allows nor disallows the strikes, but in practice the state by all means unleash repression on strikes and therefore the strike is practically banned.

**Provisional regulations on labor and employment reforms 1986:** The State Council issued four sets of provisional regulations on labor and employment reforms in 1986, which in order to permit dismissal and downsizing of SOEs, to open and diversify the labour market and to introduce labour contract for all type of workers, encouraged multiple systems of employment. It also offered some sort of unemployment insurance to those affected by

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downsizing of the enterprises. 1986 onwards all new recruits had to sign labour contract with enterprises and after expiry the renewal of contract was subject to mutual agreement.\footnote{Kinglun Ngok, ‘The Changes of Chinese Labor Policy and Labor Legislation in the Context of Market Transition’, ILWCH, 73, Spring 2008, Sun Yat-sen University; \url{http://www.japanfocus.org/data/ngok.pdf}}

**Enterprise Insolvency Law 1988:** It allowed the SOEs to restructure and reorganize themselves as per the requirements to be competitive in the market economy. They were also allowed to be liquidated. From early 1990s, social welfare programs (pensions, housing, healthcare, and schooling etc.) were gradually separated from the commercial activities of SOEs and it was no more the responsibility of enterprises to run these social welfare programs.\footnote{Kinglun Ngok, ‘The Changes of Chinese Labor Policy and Labor Legislation in the Context of Market Transition’, ILWCH, 73, Spring 2008, Sun Yat-sen University; \url{http://www.japanfocus.org/data/ngok.pdf}}

Therefore the developments till early 1990s had already established a pro-capital labour relations regime in terms of: 1. The managers and not the workers had effective control on all matters of enterprises and markets and profits rather than labour welfare were the driving force of the enterprises, 2. The end of the iron rice bowl (lifelong job security and social security) and labour again becoming a commodity to be sold and purchased in the open market, 3. Restrictions on labour mobility were by and large removed and job assignment by the government was replaced by the labor market, 4. Remuneration was linked to worker’s performance, 5. Danwei system was dismantled and now workers had to make their own contributions to their welfare and benefits, 6. Labour legislations and policies systematically established to produce and reproduce pro-capital labour relations, 6. Inherited system of single trade union federation at national level was unchanged to exercise effective control over labour and labour relations.

The whole period from 1978 onwards, is like an experimentation and testing period. The policies that proved fruitful and successful at various levels (SEZs, districts and provinces) were codified into law. From 1978 to 1994, more than 160 labor regulations and rules were issued by the State Council regarding employment, wages, social insurance and welfare, labor protection, work safety and hygiene, special protection for female and juvenile workers, democratic management of workers, and settlement of labor disputes.

However, till 1993, there was no comprehensive national labour law in China. It was only in 1994, when a comprehensive national labour law came in to existence. Actually the changing political economy of the nation and particularly three crucial factors compelled the state to come out with a declared labour relations regime, i.e., a national labour law: \textit{i}) wide spread labour unrest, \textit{ii}) state loosing control over labour in fast growing private economy (by the 1994, the number of workers in private enterprises had reached to about 6.483million; in such situations the national labour law can be the only effective way to exercise direct state control over labour), and \textit{iii}) compulsions to project a better image at international level in terms of respecting labour rights and human rights.

It is worth mentioning that the early 1990s witnessed widespread labour unrest in the form of increasing labor disputes, wildcat strikes, stoppages, and mass protests. “In summer 1993, a leading official from the Ministry of Labor (MOL) disclosed that, according to the incomplete statistics of seventeen provinces and cities, from January to May 1993, there were 194 strikes and slowdowns in China involving 32,000 workers. In April 1994, an official report disclosed that labor disputes increased by fifty percent from 1992. In mid-1994, incidents of industrial unrest were said to be occurring once or twice a week in the provinces of Hubei, Hunan, Heilongjiang, and Liaoning. The affected areas were places with depressed industries, such as coal mining and textiles. The booming non-state economy, especially the foreign-funded enterprises including joint ventures and completely foreign-owned enterprises, and private firms in the early 1990s also experienced a variety of labor problems.”

Labour Law of 1994: The Main elements of the Labor Law can be listed as follows:

- The Labor Law legalized the labor contract, collective bargaining and collective contract, social insurance, the minimum wage, labor dispute resolution, and factory inspection. The Law also established the labor standards in China, including the eight-hour workday and forty-four hour workweek (shortened to forty hours in March 1995 by the State Council), limits on overtime work, and occupational safety and workplace hygiene.
- The Law for the first time creates a united labor regime across different types of ownership or firms in the context of market transition. In the past, laborers in enterprises with different ownership had been subject to different labor policies and regulations.
- The Law legally abolished the lifelong employment system. It allowed employers to dismiss workers for economic reasons, but also put some restrictions on employers’ power to dismiss the workers. On the other hand it left the space for employers to use short term labor contracts.
- The Law incorporates some important elements of international labor standards like working hours, minimum wage, annual leave, prohibition of child labour etc.
- The Law sets ups a tripartite framework of labor relations with trade union, state and employers and three stages of labour dispute resolution- factory mediation, local government arbitration, and litigation.

The 1994 was a landmark in terms of building future labour relations in China. It certainly brought some change in the conditions of workers and also gave some space for emergence of a new labour movement in China.

As we have discussed earlier that the industrialization in initial phase of reforms particularly till 1984 and generally in whole period of 1980s and even in early 1990s was mainly low road, focusing on labour intensive manufacturing specially doing processing and assembling jobs.

for Hong Kong, Macau and Taiwan based industries. The working conditions were so worse that it resembled early periods of industrialization in Europe. Even in early 1990s, many reports disclosed that the migrant workers in non-state sector were compelled to work in the situations of virtual slavery. They were treated in a humiliating manner, which deprived them of dignity, security, justice, and fair compensation. “Labor abuses were rampant in both foreign-funded enterprises and private enterprises, of which the most common one was long working hours. A survey conducted in Beijing in 1993 showed that twelve percent of hired workers in private enterprises worked ten to twelve hours a day, five percent worked twelve to fourteen hours a day, and another three percent worked more than fourteen hours a day. Other surveys disclosed that more than eighty-five percent of hired workers worked more than eight hours a day, usually twelve hours. Other problems included delaying or deducting payment of wages, the lack of necessary safety equipment and minimum labor protection, appalling working conditions, and high industrial accident rates. A special labor problem in private enterprises was child labor.”

It were in these situations that the wide spread labour unrest emerged in early 1990s and 1994 Labour Law was an attempt to bring change in these situation. However, there were some major problems in law itself and also in the overall attitude of the local states, which actually made the whole law virtually defunct particularly in private and foreign funded enterprises. The only major change that this law brought was the boosting the morals of workers and labour organizations (NGOs and various informal organizations of workers) in terms of getting some legally enforceable labour rights but more in terms of a hope and feeling that their struggles may compel the government to legislate and enforce labour rights. It was in this background that in late 1990s and 2000s, in more and more workers’ struggles, general issues of labour rights were expressly raised, along with factory level demands.

The major problems in 1994 Labour Law and its implementation can be listed as follows:

1. The provisions of labor contracts in Labor Law were vague and lax. There was no time limit for an employer to sign a labor contract with a worker. There was no significant punishment (only some compensation) in case the employer was not signing the contract. There was no provision for severance payment to workers in case of dismissal on the day when their labor contracts expire. These loopholes encouraged employers either to not sign the contract or sign only short term contracts (three months to one year). Therefore, in some way it even worsened the situation in the sense that large number permanent workers were also converted into short term workers. The law neither specified wages and benefits of probationary employees, nor imposed any strict constraints on employers’ use of probation.

2. The most important factor in implementation failure was that the state, local governments and also the ACFTU were more concerned for growth than labour welfare and they stood up for capital and not the labour. Employers especially in non-state sectors were obviously reluctant to sign contracts with workers.

3. The government machinery responsible to insure implementation of labour law, i.e., the factory inspection was almost intentionally paralyzed, since there were only 40,000 people responsible for labor inspection in China in 2001, when the total...
number of employees had reached 239 million. There were only about 200 labour inspectors in Shenzhen which was booming in 2001.\(^{60}\)

4. The labor dispute resolution established by the Labor Law is woefully ill-equipped to deal with the flood of labor disputes, and the process is so lengthy that normally a poorly-paid worker cannot afford it. Therefore many disgruntled workers rather than going for litigation resorted to illegal and even violent means, like street protest, murdering, kidnapping, and even committing suicide by jumping from a high place to show their desperation.

5. The Labor Law failed to provide legal protection for the migrant workers. Migrant workers constituting fifty-eight percent of the labor force in the secondary sector, and fifty-two percent in the tertiary sector remained excluded from the government’s labor policy because of their ambiguous status- workers by occupation and peasants as their residential and social status. The Labor Law acknowledges no concept of migrant worker.

The failure in signing labour contract becomes failure of the whole law, because if the contract is not signed, the workers can not prove employment relationship and therefore can not claim for other benefits. Therefore, actually the labour law was not effectively enforceable. Therefore the rampant violations of law continued. Many contract workers were even denied social insurance benefits because their employers refuse to pay social insurance premiums. These conditions led to growing discontent among workers which was reflected in increasing number of industrial disputes and radicalization of workers struggles in coming years.

“Official statistics show that the number of labor dispute cases increased from 19,098 in 1994 to 226,000 in 2003, and the number of workers involved increased from 77,794 to 800,000 during the same period. In 2005 alone, the number of labor dispute cases accepted and heard by labor dispute arbitration committees at all levels of government reached 314,000 and involved 744,000 workers. Among these cases, the number of collective labor dispute cases hit 19,000 and involved 410,000 workers. Most disputes involved labor remuneration, economic compensation, and insurance and benefits. On top of labor disputes, spontaneous strikes were not uncommon. Though no exact figures on strikes are available, it is well known that sporadic stoppage and strikes occurred widely in the coastal regions where millions of migrant workers live. From early March until May 2002, thousands of displaced workers in Daqing, Heilongjiang Province, and in Liaoyang, Liaoning Province, engaged in large-scale protests over unpaid benefits and the corruption of cadres. The protests spread to a number of cities and constituted probably the largest social protest movement since the 1989 pro-democracy movement.”\(^{61}\)


It was also reported that since the labour law failed to provide any protection to migrant workers, they faced worse conditions of exploitation like long working hours, physical punishment and insults, occupational injuries, fires and other fatal accidents etc. The research report released by the Research Office of the State Council itself exposed the fact that monthly wages of migrant workers were mainly within the 500–800 yuan range, with 30 percent of them earning only up to 500 yuan. On the other hand, according to the figures released by Ministry of Labor and Social Security (MLSS) and the State Bureau of Statistics, the average monthly wage for urban workers and staff was 1,750 yuan in 2006. More over migrant workers were mostly denied labour contracts and only about half of them were able to conclude contracts (mostly short term) with employers. It is widely accepted that this ‘no hope for change’ situation was one of the factors behind their “vote with feet” i.e., they just left the cities and returned to their villages, and it created a serious shortage of labor particularly in Shenzhen and Pearl River Delta and also in other coastal regions since 2003.62

In these background (also with lessons of SARS crisis in 2003) the new initiatives were taken for two separate legislations one on labour contract and another on social security to resolve the crucial problems that were becoming a potential threat for political and economic instability. Other initiatives were also taken to improve the conditions of migrant workers. It was in this background that the state started using new populist jargons of ‘putting people first’ and ‘building harmonious society’ etc.

State Council releases “Notice on Doing a Better Job Concerning the Employment Management of and Services for Migrant Workers,” in 2003: This policy proposed to improve the conditions of migrant workers by taking following steps: a) Abolition of the discriminatory policy regulations and irrational fees against migrant workers; b) Elimination of the deductions of and delays in wage payment for migrant workers; c) Resolution of the problems associated with free education for their children; d) Provision of vocational training; e) Improvement of living conditions and working environment in the urban areas; and f) Strengthening and improvement of administrative controls on migrant workers.

**Trade Union Law 2001:** China has not yet ratified the International Labor Organization (ILO) Convention No. 87 on Freedom of Association and Protection of the Right to Organize or the ILO Convention No. 98 on the Right to organize and Collective Bargaining. The trade union law of China enacted in 2001 provides a structure of trade unionism that establishes the monopoly of All China Federation of Trade Unions (ACFTU), which is very much clear in its following provisions.63

**Article 3:** All manual and mental workers in enterprises, institutions and government departments within the territory of China who rely on wages or salaries as their main source of income irrespective of their

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nationality, race, sex, occupation, religious belief or educational background, have the right to organize or join trade unions according to law. No organizations or individuals shall obstruct or restrict them.

**Article 10:** Basic-level trade union committee shall be set up in an enterprise, an institution, or a government department with a membership of twenty-five or more; where the membership is less than twenty-five, a basic-level trade union committee may be separately set up, or a basic-level trade union committee may be set up jointly by the members in two or more work units, or an organizer may be elected to organize the members in various activities. Where female workers and staff members are relatively large in number, a trade union committee for female workers and staff members may be set up, which shall carry out its work under the leadership of the trade union at the corresponding level; where they are relatively small in number, there may be a member in charge of the female workers and staff members on a trade union committee. In townships, towns, or urban neighborhoods, where workers and staff members of enterprises are relatively large in number, joint basic-level trade union federations may be set up; local trade union federations shall be established in places at or above the county level. Industrial trade unions may be formed, when needed, at national or local levels for a single industry or several industries of a similar nature. The All-China Federation of Trade Unions shall be established as the unified national organization.

**Article 11:** The establishment of basic-level trade union organizations, local trade union federations, and national or local industrial trade union organizations shall be submitted to the trade union organization at the next higher level for approval. Trade union organizations at higher levels may dispatch their members to assist and guide the workers and staff members of enterprises to set up their trade unions, no units or individuals may obstruct the effort.

**Article 18:** The term of labor contract for the full-time chairman, vice chairman or member of a basic-level trade union shall be automatically extended from the date he assumes the office, and the term extended shall be equal to the term of office; if the term of labor contract left to be served by a chairman, vice chairman or member is shorter than the term of office from the date he assumes the office, the term of the labor contract shall be automatically extended to the expiration of the term of office, except that he commits serious mistakes during the term of office or reaches the statutory age for retirement.

The Annual survey of violations of trade union rights 2010, gives a clear picture of trade unionism in China. “No independent trade unions are allowed. Organisers of workers' groups or protests are often arrested. Some are sentenced to terms of imprisonment (officially called "reform through labour", or "lao gai") after criminal trials which fall well short of international standards. Others can be assigned to terms of "re-education through labour", an administrative process which bypasses the few safeguards of the criminal justice system. The fear of detention also makes negotiations between workers' representatives and the authorities and employers extremely difficult. The continued use and abuse of extensive state secrets legislation including laws classifying labour related statistics as state secrets means that activists can and are sometimes charged with 'disclosing state secrets' for their work. However it is worth noting that there are increasing numbers of grassroots enterprise unions either formed by the workers themselves or prompted by official 'organizing' campaigns that have evolved into something approaching a trade union.”

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First comprehensive policy document of the central government on migrant workers in 2006: The policy document declared that migrant workers are an important element in

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64 2010 Annual Survey of violations of trade union rights – China; [http://www.unhcr.org/refworld/country,,ITUC,ANNUALREPORT,CHN,,4c4fec852d,0.html](http://www.unhcr.org/refworld/country,,ITUC,ANNUALREPORT,CHN,,4c4fec852d,0.html)
the manufacturing labor and provided for the following measures to solve the problems of migrant workers: a) to establish a unified labor market for the urban and rural sectors and an employment system based on fair competition; b) to promote a series of policies to protect migrant workers' legitimate rights; and c) to set up a system of public services in both urban and rural sectors for migrant workers. In terms of concrete steps the document proposed the following:

- Strictly regulate employers' payment of wages to ensure full payment on schedule through the establishment of a monitoring system and a wage guarantee fund and strictly implement the minimum wage system;
- Strictly implement the labor contract system through strengthening the guidance and supervision of employers in order to protect the occupational safety and public health rights of migrant workers, especially female and juvenile workers, to prohibit the employment of child labor;
- Further abolish various discriminatory regulations and irrational restrictions against migrant workers;
- Include migrant workers in the occupational injuries insurance system and provide them medical insurance for chronic illnesses as well as study and find appropriate ways to offer them retirement benefits;
- Gradually broaden the coverage of urban public services for migrant workers according to the territorial administration principle in order to ensure their children's right to free education, to improve the family planning administration and services, to improve their living conditions, and to improve their employment services and vocational training;
- Protect their legitimate democratic political rights and land rights under the rural household responsibility system as well as strengthen the implementation of the laws protecting these rights;
- Develop township/town enterprises and country economies, raise the capacity of small cities and towns to accumulate industries and absorb population, and expand the capacity of employment transfer at the local level.

**Labour Contract Law 2007:**

The Labor Contract Law came into force in Jan 2008. It consists of eight chapters and ninety-eight articles and establishes a comprehensive system of labour relations. The Law on the one hand establishes unified labour relations at national level, and for the first time giving equal status for migrant workers and urban workers, by instituting a system of compulsory labour contracts. Apparently it gives an impression that it is going to end the informalisation of labour and trying to realize flexibilization of labour by other means, i.e., by establishing a system of short term and project based contracts. However, on the other hand, the law very shrewdly leaves a door for the use of casual labour for which the labour contract is not required. Therefore, it is very much possible that the law is not going to change the condition of majority of migrant workers and they may still be compelled to survive as informal workers.

The main elements of the Labour contract Law 2007 can be listed as follows:
1. The law makes a written employment contract (with in a month of joining) compulsory, except in the case of casual employment. Where employers fail to conclude written contracts, they will face liability for double wages. The law classifies the employment relationships into four categories:
   a. Fixed term (guding qixian laodong hetong): for a specific period and with a resignation date
   b. Continuing (wuguding qixianlaodong hetong): with no termination date and terminable only for a valid reason
   c. Contracts for a specific task or project contracts: Terminates when the task or project is completed
   d. Non-fulltime engagement of labour: casual workers engaged on the basis of hourly remuneration and terminable any time without notice and without any severance pay; there is no need of formal contract for engaging them. This casual employment is restricted to an average of no more than four hours per day, and no more than 24 hours per week with the same employer.

2. The law takes a pro-labour gesture by making termination of continuing and fixed term contracts highly difficult and costly. Termination can be done by consent, summary termination, for misconduct, during the probation period, mass redundancy, and by giving 30 days notice. Termination by notice can only occur if: a) worker is incapacitated as a result of a non work-related injury, or b) worker is incompetent despite training or alteration of the position, or that there is a major change in the objective circumstances relied upon when the contract was made. A pregnant worker or a worker suffering from a work-related injury cannot be terminated. It is also mandatory to follow the procedures before dismissing a worker. “Labour Contract Law establishes a high level of severance pay, generally calculated at one month’s pay per year of service. This sum is payable in most cases of termination of continuing and fixed term employees, including termination by consent, termination by notice at the initiative of the employer, termination by the employee for employer misconduct, redundancy (but only if the Enterprise Bankruptcy Law applies) and termination of a fixed term contract through expiration (unless the employer offers a renewed contract on the same or superior terms).”

3. The law also makes it un-remunerative to engage labour through labour contractors or agencies (dispatch workers) by putting tough conditions for this labour hiring practice. The labour law puts a condition that all dispatch workers must be engaged under fixed term contracts for duration of not less than two years. It actually makes these workers most secure category. It is also directed that the labour hire company must ensure minimum wages for these workers on a monthly basis, even when they are not placed in job. Moreover, there must be a formal contract between user firm and labour hire agency detailing the placements and the payments to be made to dispatch workers including arrangements with respect to social insurance premiums. Not only this, the labour hire workers must be paid at the same rate as workers in the user firm engaged in similar work and must receive the same penalty rates and

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benefits. It is also provided that the labour hire workers may join the user firm’s union. The user firms are also prohibited for ‘on-selling’ dispatch workers to other firms, which makes it impossible for user firms to set up service firms to dispatch workers to themselves or their subsidiary organizations.66

4. The pro-labour gesture of the labour contract law is quite evident in above two points. But let us see how real this pro-labour gesture is? It is to be noted here that there is no provision for severance pay at the expiry of task based or project based contracts. There is no provision for conversion Project contracts in to continuing contracts in conditions of successive contracts, as it is provided in case of successive fixed term contracts. There are no restrictions on the ‘rolling’ use of project/ task contracts (until ten years). It provides a scope for engaging workers on a long succession of short-term contracts for specific tasks, and also the freedom to terminate them without severance pay. It is also worth mentioning that in case of non-fulltime or casual labour, there is no requirement of any formal contract and therefore even when the law limits the use of this category of labour for not more than four hours per day and 24 hours per week, it will be almost next to impossible to prove if employer is violating the law. If there is no formal contract, there will be no proof with the workers that they were engaged for longer periods. Therefore the law leaves a safe door to use the informal labour by violating the labour law. It is clear that the pro-labour gesture of the law is just appearance and not the reality. It would have been a reality only when there was no space for casual labour and project based contract. It is not going to end the use of informal labour. As the earlier trends suggest, the private and foreign funded enterprises will exploit more and more informal casual labour and project based contracts and make the mockery of pro-labour gesture of labour law. In case of casual workers, the employers may also avoid paying social security contributions since there will be no record of employment relationship, therefore for employers, engaging the informal casual labour by violating the labour law is most attractive form of labour engagement.

5. The law imposes strict obligations on employers to pay full wages on time. It prohibits adopting such strategies to reduce the wage bill. The law prohibits forced overtime and directs to pay penalty rates for overtime. It also prohibits bonded labour and directs that employers may not retain an employee’s property or money as security

6. The law specifically provides that a mere change in name, directorship or investor profile will not affect an employment contract.

7. The law also provides that in case of employers devise or makes changes to work rules which have a direct bearing on the interests of workers; they have to submit it to the employee’s congress or to all the employees. The law does not expressly say that such changes need workers’ consent. Actually in no such express wordings, it

actually grants authority to the employers to unilaterally alter the working conditions.  

8. The Law provides that the government officials found guilty of abuse of office and dereliction of duty may face administrative penalties or criminal prosecution. It also makes provisions for punishment of employers violating the law. Moreover it provides better space and role for trade unions in protecting workers.

9. The law contains no special provisions targeting migrant workers but it does not deny migrant workers’ status of laborers in general, and therefore their labour rights are also protected in labour contracts.

The Labour Dispute Resolution Law 2008:

Interim Measures on State-Owned Enterprises Labor Dispute Resolution was enacted in 1987 and since then the labour dispute cases started soaring. From 1987 to 2005 the 1.72 million labour disputes (grew annually by 27.3%) were raised involving 5.32 million workers. The new Dispute Resolution Law came in to existence in May 2008 and its contents can be summarized as follows.

1. The law provides three stage dispute resolution mechanism: Mediation, arbitration, and litigation.
2. The new law cuts down the time period for arbitration (45 day +15 days extension) and provides possibility of finality of awards in certain conditions (labor remuneration, medical care expenses for occupational injury, economic indemnity or compensation, working hours, leave and rest, and social insurance etc)
3. Workers (but not the employers) may bring the arbitral awards to the people’s court within fifteen days
4. The labor arbitration is made free of charge
5. The law provides clear rules relieving the workers from burden of proof
6. Certain mediation agreements are enforceable as in the case of arbitration discussed above and the workers may apply to the people’s court for a payment order with the mediation agreement; the people’s court shall then issue a payment order according to law.

Social Security Law 2011:

China enacted a comprehensive Social Insurance Law in November 2010 and it will be effective from July 2011. It has following five major components.

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1. **Old-age insurance:** All the retirees in China are entitled to receive old-age pension fund on a monthly basis. The requirement for entitlement of this benefit is payment of insurance premiums for at least 15 years. The insurance premiums are to be jointly contributed by employers and employees.

2. **Medical insurance:** Medical insurance is meant for the purpose of compensating employees for medical expenses including cost of medicine, outpatient and hospitalization expenses etc.

3. **Unemployment insurance:** It entitles the workers to receive unemployment insurance payments at an amount lower than the local minimum wage for 12, 18 or 24 months depending on the length of employment.

4. **Work-related injury insurance:** It covers work-related injury or death. The compensation amount covers medical expenses, disability benefits, nursing expenses and death subsidies. Injured workers are also entitled to receive work related injury compensation insurance in advance even if an employer fails to contribute required insurance premiums and refuses to pay medical expenses.

5. **Child-bearing insurance:** Female employees or unemployed wives of male employees are entitled for childbirth allowances during maternity leave and an additional amount to cover part of the medical costs including medicine, examination, midwifery and hospitalization expenses.

We have already discussed that the special economic zones in China enjoy special authorities for innovations and experimentations of various policies and legislations. After enactment of national legislations in particular field uniformity in law is achieved both inside and outside the zones, but then also the special economic zones have the authority to provide it their own interpretation and make their own regulations for its implementation in the zones. Therefore, the coverage and the system of implementation of the laws may be different in the zones; to a large extent the laws may get a different colour and different meaning in the zones. It is in this context that the Shenzhen special economic zone is coming out with its own regulations on two components of the above discussed Social Insurance System: Pension and unemployment insurance. It is also important to discuss here that Shenzhen special economic zone has taken an initiative to enact Collective Bargaining Law. It was to be made effective in 2011, but due to opposition from industrialists, it is put on hold. The relevant contents of these laws/regulations are as follows:

6. **Working Conditions in the Shenzhen SEZ**

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71 The information is based on interview of workers (4 women and 2 men), and two worker turned NGO activists (one male and another female) working in the field of labour welfare in Shenzhen. Two women workers were working in electronic appliance industry, one in electroplating and one in washing (garment) shop; one of the two men workers was working in furniture industry and another in garment industry. All the 6 workers and two NGO activists were migrants, some from the same province and the others from
i) The workforce

More than 80 percent of the workforce in the Shenzhen SEZ is migrant labour, and majority of them are young women between the ages of 16 and 25.

The older generation of migrant workers that came to work in Shenzhen in the 1980s generally did not want to settle there and hoped that to be able to return to their villages at some point. But the new generation of workers, those who arrived in 1990s and later, generally wanted to settle in Shenzhen and not return to the village. According to Lily Zhai, professor at Shenzhen University, the findings of a survey she conducted in Shenzhen revealed that only 10 percent of migrant workers had farming experience.

In the interviews conducted by Asia Monitor Resource Centre (AMRC), the workers said that these cities, such as Shenzhen, offered better job opportunities and a more dynamic and attractive lifestyle. Two of the workers interviewed once went back to their villages and worked for sometime in nearby industries but were unsatisfied and returned to Shenzhen. However, many of them still hope to get a decent job in newly industrializing districts and provinces near their hometowns, rather than settle in Shenzhen. They also stated that buying a flat is Shenzhen was a financial impossibility.

The new generation workers in the Shenzhen SEZ are better educated. More than 67 percent of them have completed high school and above, while only 49 percent of former generation workers had such a qualification. The majority of the new generation workers use internet and are more exposed to the world.

About 60 percent of the new generation migrant workers (in the age group of 20-30) are unmarried; while more than 90 percent of older generation workers in this age group were married. Generally in third world countries, young unmarried women are usually considered to be unstable workforce, since the majority stop working or move to another location after marriage. But this is not the case with young Chinese women workers. They were were emphatic in their decision to continue working even after marriage.

Almost all the workers sent some money periodically to their parents or relatives, because even those who had migrated to Shenzhen with family, had some of family members (children or/ and parents) still living in their home village.

ii) Employment relationship

The Labour Contract Law 2007 has had a visible impact, and undoubtedly the percentage of workers with formal contracts has significantly increased. According to Zhai, more than 70 percent of all workers had formal labour contracts, but 80 percent of these contracts were short term, i.e., for terms of less than two years. This proves our analysis that the space left other provinces like Sichuan, Hupeir etc. Four workers had migrated with family and two were single. One (male) NGO activists had migrated with mother, and another (female) migrated single. A professor of Shenzhen University who recently engaged in a survey on implementation of labour laws in about 137 factories in Shenzhen was also interviewed. The information from relevant secondary sources is also used to construct a general picture of working conditions in the zone.

in the Labour Contract Law for the use of casual workers is being exploited by employers who regularly employ workers on short term and informal bases. And since the law requires no formal contract in this case, it is almost impossible to provide any evidence of this violation of the labour law. The employers resort to this practice, because in this case they are not required to pay any social security contribution. The workers also reported that many times the employers do not provide a copy to the employee even after both have signed the contract, and without their own copy, it was difficult for the worker to prove his or her employment, including the exact dates of the employment.

An ACFTU survey\textsuperscript{74} in 2010 showed that 84.5 percent of the current generation of migrant workers and 88.5 percent of urban workers had signed employment contracts. But 68.2 percent of those contracts did not specify the amount of the agreed monthly wages, 37.9 percent only detailed the amount of the agreed salary, and 16.8 percent of the contracts did not contain a formal text. Separately, 7.9 percent of the migrant workers reported that their employers required them to pay a security deposit or seized their identity documents.

The increase in the number of workers with formal employment contracts has created another dynamic, job hopping. As the floating labour pool declines, demand for workers has risen. Thus, workers are relatively in a better position to switch job try to move up the ladder. Young single workers, in particular, are more interested in changing jobs for better wages rather than job security. Therefore, an increase in the number of formal contracts actually shows the desire of employers to retain their workforce. Their intention to sign only short-term contracts and preference for informal labour actually shows their real motive: Once the problem of a scarcity of labour mitigates, they may return to the practice of using more informal labour.

According to Zhai, the new generation of workers only stay one to two years in a job, while the previous generation held onto their jobs for six to eight years. The new trend is the result of many factors. The most important factors are first, employers have more freedom to hire and fire, and second, with little chances of promotion in the same factory, the workers change jobs improve their position and for upward mobility.

More than 50 percent of workers in Shenzhen live in dormitories,\textsuperscript{75} generally 10 people in a room two and three-bed high bunk beds. This creates a special kind of employment relationship that also directly affects the living conditions of workers. The workers generally do not have to pay rent in dormitories and the food in the company canteens is subsidized. However, in actual practice, generally these subsidies take the form of attendance allowance, and this is not available to those who do not fulfil the required attendance. Therefore, the workers living in the dormitories have limitations on taking leave. This militarised style of factory regime controls the migrant workers not only in terms of working hours but also their off-work life. This has led to many social problems such as suicides, bursts of violence, hysterical behaviour and mental disorders.

\textsuperscript{74} New generation of migrant workers in 2010 Enterprise Survey and Suggestions; \url{http://www.acftu.net/template/10004/file.jsp?cid=853&aid=83875}

\textsuperscript{75} Shenzhen SEZ (and probably many other Chinese zones) hosts huge factories with thousands of workers, many with 10,000 or more workers and some with 40,000 workers. One Foxconn factory has 400,000 workers. This makes dormitories for workers within the factory complexes compulsory to insure a timely supply of labour and also to exercise some control over the workers.
iii) Wages and working hours

Generally, the front line workers in industries in Shenzhen work 10 hours a day, six days a week and earn between Rmb 1300 to 1700 a month in 2011. The labour law of China states the work day should be only eight hours and the work week 5 days. However, violation of the labour law in this regard and excessive overtime is a general trend. In the interviews conducted by AMRC researchers, the workers said that only in few factories did workers enjoy a five-day work week and while most said a six-day work week was the general practice. Three hours overtime a day is also the general practice. Two workers reported that they got only one day off a month, thus working almost 29 days in a month on average. However, according to the workers and NGO activists, in general the workers do not object to such overtime practices and actually they want to work overtime to earn more money. Overtime hours are paid at the rate of 1.5 times the hourly wages. The majority of workers are paid Rmb 1,100 a month, even those with three to five years experience in same or other factories. Two supervisors also said that they were received only Rmb 1,100+58 a month. Therefore, the low wages compel the workers to work overtime to increase their earnings. When overtime is included, their monthly income rises to about Rmb 1,700 a month. With this income, they can save money only by living in the dormitory in the case of singles or by earning two salaries in the case of married couples.

There emerges a clear discrimination against migrant workers if we look at the average wage of both locals and migrants. In the 2010 survey conducted by the ACFTU, it was shown that the average earnings of migrant workers were only about Rmb 1,748 a month, while local workers earned on average Rmb 3,047 a month. It is widely acknowledged that the wage level of migrant workers in Shenzhen has fallen behind the growth in productivity and GDP as well as the cost of living. Of those surveyed, 5.4 percent of workers reported that they earned less than the minimum wage.

There is an obvious increase in money wages of workers in last few years, but according to workers and NGO activists keeping in view the inflation in prices of necessary commodities there is almost no increase in real wages.

Recently the minimum wages were increased in China and following wages were declared for different localities of Guangdong province:

<table>
<thead>
<tr>
<th>Category</th>
<th>Wage/ Month</th>
<th>Wage/ Hour</th>
<th>Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>1300</td>
<td>12.5</td>
<td>Guangzhou</td>
</tr>
<tr>
<td>2nd</td>
<td>1100</td>
<td>10.5</td>
<td>Zhuhai, Faoshan, Dongguan, Zhongshan</td>
</tr>
<tr>
<td>3rd</td>
<td>950</td>
<td>9.3</td>
<td>Shantou, Huaizhou, Jiangmen</td>
</tr>
<tr>
<td>4th</td>
<td>850</td>
<td>8.3</td>
<td>Sháoguān, Héyuán, Méizhōu</td>
</tr>
</tbody>
</table>

Survey findings as reported by Prof Zhai

iv) Occupational Health and Safety

The workers and NGO activists reported that poor occupational health and safety is emerging as a serious problem in Shenzhen factories. In 1993, the notorious Zhili toy factory fire killed 83 workers and wounded many more. This and other industrial accidents indicated gross negligence in occupational health and safety matters by the local government and the management.

The husband of one worker interviewed was suffering from hearing damage resulting from his work and a significant amount of their earnings was going toward his medical expenses. According to workers and NGO activists, there were several shop-floor accidents and dust-related health problems occurring in their factories every month. In many cases the workers do not get any financial support and sometimes do not receive paid sick leave. The ACFTU survey also revealed that work safety remains a major problem, “with around one third of young workers having to endure extreme temperatures and noise. Some 36 percent said mechanical problems often led to injuries at work, and 35 percent worked in a high-dust environment.” In addition, “21 percent of respondents [said they] had not received any safety training, and only 52 percent had been given a health check-up in the last year.”

v) Social Security

The workers and NGO activists reported that even when the Labour Law of the nation provides for five types of social security payments for all workers, in Shenzhen the migrant workers are not getting full benefits of the law. This is mainly because of the relaxations granted in implementation of the law in the Shenzhen SEZ. Only local workers (with local hukou) are getting the full benefits of the law. The 30 percent of migrant workers, who are denied formal employment contracts, are obviously not getting any social security benefits. But those with contracts are also getting only a few benefits or none at all.

With occupational health and safety problems rising in Shenzhen factories, there is a greater need for industrial injury-related social security benefits. These are provided to most of the workers with formal contracts. But pension and medical insurance is provided to only some workers. The ACFTU survey revealed that 67.7 percent of migrant workers were covered by pension insurance, 77.4 percent had medical insurance and 70.3 percent were covered by work injury insurance. They also found that only 55.9 percent were eligible for unemployment insurance and 30.7 percent for maternity insurance. The survey also revealed that the rates of coverage of migrant workers were significantly lower than that of local workers. In the interviews, the workers reported that in many cases even when the employment contracts had been signed, a copy was not given to the workers. Without this written proof of employment, it was often difficult for an injured worker to claim compensation (for hospital treatment fees, physical therapy charges, medicines, etc) from the

78 Survey finds young migrants still earn around half the salary of urban workers; http://www.clb.org.hk/en/node/100988
employer. Additionally, it is possible that the rates of insurance coverage given in the ACFTU survey may have overstated the actual rate of coverage.

The workers and NGO activists said that it was also not easy to get the benefits provided in the labour law. One of the most common problems was employers’ failure to pay redundancy compensation due on completion of a short-term contract, if the worker was not re-engaging or rolling over the contract, i.e., starting a new short-term contract. They related a story in which a factory owner tried to dismiss all the workers without paying any compensation. The factory owner started selling the machinery, etc. Only with the help of labour NGO workers were the workers able to take this case to court and sue the employer for their wages.

vi) **Collective Bargaining**

There is no actual practice of collective bargaining (or collective consultation) on the ground. According to workers, the whole system exists only on paper, and even if collective contracts (or a collective agreement) are signed, the workers have little say if any in the content of the agreement. The primary factor behind this is the absence of real workers’ organisations at the shop floor. Unions are commonly dominated by management people who serve as committee members. Even if there are enterprise level unions, and even when recently there are some initiatives for giving more say to these unions for collective consultation with management, these unions are unable to bring about any significant change. The only way real collective bargaining emerges is by way of strikes.

However, the collective contract has now become a legal necessity for the factories and with increasing discontent among workers, the ACFTU is also focusing its efforts on compelling more factories to sign collective contracts. Fortune 500 companies, operating in China, have been the union’s main target. According to Zhai, in 2010 with the initiative of the ACFTU, collective contracts were signed in 100 big enterprises. In all, these agreements covered about 3.8 million workers.

### Major Problems Identified by Workers and NGO Activists:

- **a)** Real Wages not increasing
- **b)** Social security benefits not provided to migrant workers
- **c)** Rampant violation of labour laws
- **d)** Whole system is pro-management
- **e)** Electronic devices used in the offices enable the management to fabricate the document (promising to pay more but pay less), and the workers are unable to challenge because they are unable to provide any evidence of the same
- **f)** Union not functioning and lack of organisation of workers

7. **Labour Movement in China and the Future Hopes**

It is very much evident that working class in China has emerged as single most important factor with immense powers to affect not only the economic growth but also the policies. Therefore, the future shape of China (in terms of how much democratic and how much pro-people and pro-labour) will largely depend on the strength and power of the working class movement. Even when there is no freedom of association and there are no independent formal trade unions, the frequent waves of strikes compelled the state to recognise the power of working class. It was the power of the working class movement that compelled the
state to come out with various policies and legislations extending the scope of workers welfare and rights.

There are indications that with the fast economic growth, the contradictions inbuilt in the capitalist development strategy are growing to the extent of creating the greater discontent among the people. On the other hand, the recent struggles of the workers also reflect that both strength and power of the labour movement is increasing.

The three crucial factors as product of inbuilt contradictions of capitalist development strategy can be listed as follows:

1. **Growth without employment and without empowering workers:** There is a consistent trend of high growth rate of economy with decreasing rate of employment. In 2008, China was able to provide 10 million jobs each year, but it faced a pressure of 30 million people waiting for employment and reemployment. The employment growth rate in 1980s was about 3 percent, it decreased to about 1.2 percent in 1991-95 to 0.9 percent in 1996-2000 and further to 0.7 percent in 2001-04 periods. The trend continued later also. In the meantime, there is almost no increase in real wages and continued overexploitation of workers, particularly migrant workers. On the other hand there are almost no channels for workers to legally raise their voice and bargain with the employers. These conditions are creating a situation for wider and deeper unrest.

2. **Rural poverty and shrinking consumption demand:** Fast economic growth in China contrasts with its shrinking consumption. Investment rate of China is about 20 percent higher than the world’s average, but its consumption rate is 10 percent below the world’s average. China’s consumption rate before 1978 ranged between 65 percent and 68 percent, it fell down to 61.1 percent in 2000 and further went down to a historical low of less than 50 percent in 2004. The final consumption rate in other developing countries remained on average at around 71 percent. One of the major factors responsible for shrinking consumption demand is growing rural poverty. According to an estimate, average expenditure on farmers’ children during the period of compulsory education accounts for about 20 percent of net household income. The average annual medical expenses of each rural household account for 16.8 percent of their net income. If these two are added to the expenses on food, the balance of farmers’ net annual income is only 16.7 percent. Based on net income per capita of RMB 3255 in 2005, each farmer has only RMB 576 left for the rest of the year for consumption or investment. If we consider the rising input costs in agriculture, the income left for consumption may go negative. This condition is the major factor behind the rural unrest in China. Even when the rural movements emerge on some other issues, the basic reason for their basic discontent can be found in these conditions.

3. **Growing discontent and absence of democratic channels to express the discontent:** In a situation of growing discontent among both peasants and workers,
absence of democratic channels to express the discontent makes the situations even more painful. If the peasants and workers do not have rights to form their independent member based organization and protest against who so ever they think responsible for their sufferings, then what they will do. It seems that these situations will create wider and deeper people’s unrest.

These situations are also creating a political challenge for CPC, since the above contradictions are also creating new spaces for alternative political forces. We can list some of these challenges as follow:

a) New spaces are created in the society where the CPC and its mass organizations have no hold or lost their hold. Dismantling of the commune and introduction of family responsibility system was followed by large scale unrests in the rural China, which deteriorated the support base of CPC in rural China and created new space for alternative political forces. On the other hand, boom in labour intensive manufacturing in new booming industrial centers, large scale migration of pauperized peasants and their transformation in wage labour or reserve army of wage labour along with introduction of anti-labour new industrial relations regime etc came out with a new wave of labour unrests deteriorating the base of CPC among urban workers and creating a huge space for new political forces. The new political forces are emerging (even without any visible body) and competing with CPC to capture this political space, even in a situation of almost no political freedom. This is apart from the huge growth of reformist NGOs in China (142121 NGOs and 124491 private non-enterprise units)\(^8\), which are by and large effectively controlled by the state and actually work as safety valves.

b) The new and fast growing middle class (party/state bureaucracy, private entrepreneurs, technocrats, professionals and also section of students) in China is becoming both backbone of Chinese economy (consumer China) and also the support base of the CPC/Chinese state. But with the expansion and maturing of this middle class its political ambitions are also growing. One attempt to satisfy their ambitions is to open the door of CPC for them and that is effectively being done. But CPC is increasingly finding it difficult to ignore the demands of political reforms. In order to satisfy the middleclass ambitions of political reforms (and also to regain its lost mass base), election system was introduced after mid 1990s both in rural areas as well as in townships with a slogan of self-government (fake democracy practiced in many developing countries like India). Many provinces also introduced a two ballet system in which party (CPC) secretary in a village is also subject to a popular vote. However, the candidatures in any election in China are so scrutinized that it never allows any political freedom and ensures political monopoly of ‘cadres’, and it is so exposed that it can not create any illusion of even fake political democracy.

c) A large section of old guards of China (both inside and outside the party) are disillusioned with the market socialism and there are increasing incidences of open statements of old guards criticizing the leadership and the path of development

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\(^8\) Yongnian Zheng, Is Communist Party Rule Sustainable in China? Discussion Paper 22, July 2007, China Policy Institute, University of Nottingham
We can understand the recent initiatives of the Chinese state and recent trends in the working class movement by situating them in above context. It is to be noted that the president Hu Jintao also accepted that the country was facing a period of magnified social conflicts. Mass incidents (strikes, demonstrations, riots) increased from more than 60000 to more than 80000 from 2006 to 2007. The trend continues in later years also. It was in this background that the state took initiatives to enact national legislations to build a better legal system for protecting (at least apparently) labour rights and extending welfare measures. Most important among them are the Labour Contract Law 2007 and Social Security Insurance 2011, and some local and national level policy initiatives to extend some social security benefits to migrant workers. The Shenzhen SEZ’s recent initiative for enacting a comprehensive Collective Bargaining Law is also directed towards the same objectives. There are also initiatives in Shenzhen (and some other places also) to authorize enterprise unions for collective consultations (not bargaining) with the managements. Most importantly, now the special economic zones are going to play a role of laboratories for innovating and experimenting on political democracy. The draft proposal on Shenzhen’s Future Reform includes proposals for direct election of deputies to district people’s congresses as well as mayoral elections. It can be said as one very short step towards a long way, but it hints on the directions. It is very clear from the developments in last decades that the Chinese state takes any such step when it is compelled by the wide spread unrests and then also it delays the whole process till it is not again compelled, and lastly what comes out is an incomplete policy or legislation with so many loopholes; but one aspect is always fully worked-apparently the policy or legislation looks pro-labour, but in essence it is on the whole pro-capital.

The labour movement in China is currently unable to comprehensively articulate and Challenge each and every anti-labour aspect of the policies and legislations, particularly because it is systematically denied a legal entity; it has only soul and no body. The workers and the activists are denied the right to sit together, think collectively and express their concerns collectively. But the soul of the movement is so strong that some how a level of collective articulation on these issues has now started developing and this is one of the most important developments in the labour movement in China.

There emerge some commonalities in the forms of struggles all over China as if there is an automatic process of learning from each other and building a collective consciousness. There

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is also a commonality in new ways of building consciousness of workers for the alternative ways of organizing. Generally in all industrial centers of China the workers centers (labour NGOs) have been established and they work more or less in similar fashion, organize labour law classes for workers and providing legal aid to workers etc. Mostly informal gatherings of various kinds at various occasions are the only opportunity for collective interaction among the workers.

In the initial phases the strikes almost everywhere in China were work stoppages in real sense of the word-suddenly stopping the work but remain present at the work place, bargaining by putting clear demands mainly wage increase in few words without any one appearing openly. Some times they also peacefully walked out of the factory. Another most popular strategy was sending a representative to local government offices to air workers’ grievances.

But after entering in 21st century, the labour movements started reflecting some sort of maturity and their actions became more and more radical. There was a wave of strikes in Shenzhen in 2007-08 (and also in other industrial centers of China). If we look at the forms of struggle in 2007-08 period, they were almost similar all over Shenzhen and also to a large extent all over China. In most of the strikes, the most effective strategy that was frequently adopted was to block the roads, along with sit-in protest and march collectively. In most of the Shenzhen strikes for example the strikes in Feihuang electronics factory in Shenzhen (series of strikes in 2007), in Shajingzhen Factory (Aug 2007), in Hailiang Storage Products company (Dec 2007), in Huayang Printing 30 October 2007) etc, blocking the road was the most radical and effective strategy. In a study of 100 cases of strikes it was found that 43 of the 100 cases involved blockades, including 17 in which road blocks were used as a secondary tactic after the launch of strike action. This strategy was adopted to amplify the public impact of the protest and force the government to take notice. Sit-down protests at the factory gate or in public squares, and protest marches were used in 18 cases. Collective petitioning or sending a representative to local government offices to air workers’ grievances was still a popular tactic and used in at least 21 cases. Only five of the 100 worker protests involved damage to factory or office property, attacks on bosses’ representatives or clashes with security personnel called in by management.83

It is very much clear 2007-08 was not only quantitative leap in the workers’ struggles, but also a qualitative leap in terms of radicalization and development of collective consciousness.

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and in developing effective strategies of struggles. In overall terms it reflected on the increasing power of the working class. However, in overall terms, the development was more in width and little in depth.

The wave of strikes in 2010 was another leap in the working class movement of China. The labour unrest in 2010 was wide spread and also intense. It is estimated that each day around 1,000 workers were involved in industrial action in Guangdong Province alone. It is also interesting to note that despite the ambiguity of their legal position, more strikes appeared to be successful.84

The strikes in 2010 were also a qualitative leap in terms of new strategies of struggles. According to workers and NGO activists, in many 2010 strikes in Shenzhen, the workers rather than going out and blocking the road, stopped or attempted to stop the factory production and entered in direct negotiations with the management. The length of strikes also increased. In earlier period, strikes were in general one day strikes or one shift strikes, but in 2010 many strikes lasted for more than one day. One more important aspect of the 2010 strikes was that in some important strikes the workers also openly raised the general demands of labour rights along with their particular demands related to the factory. For example in Honda strike:

Therefore the 2010 strikes show that labour movement in China has entered in a new phase. Power of the working class movement is significantly increased in overall terms. On the one hand, there are greater possibilities that in near future more independent (in functioning) enterprise unions may emerge (even when they are formally linked to ACFTU) and more effectively assert in collective consultation/bargaining at enterprise level. On the other hand, the labour movement may also grow more assertive for industrial democracy and the workers struggles may come out with more political content.

(This paper is extended and modified version of the paper “China’s Capitalist Development and its Implications for Labour with Special Reference to the Shenzhen SEZ” written by Apo Leong and Surendra Pratap (author of this paper) and published by AMRC 2011, Hong kong in the book on ‘Special Economic Zones in Asia’)

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84 2010 Annual Survey of violations of trade union rights – China, http://www.unhcr.org/refworld/country,ITUC,ANNUALREPORT,CHN,,4c4fec852d0.html