

**INTERNATIONAL CONFEDERATION OF FREE TRADE UNIONS
(ICFTU)**

**TRADE, EMPLOYMENT AND DEVELOPMENT IN
THE PEOPLE'S REPUBLIC OF CHINA**

**REPORT FOR THE WTO GENERAL COUNCIL REVIEW OF THE
TRADE POLICIES OF THE PEOPLE'S REPUBLIC OF CHINA**

(Geneva, 4 and 6 April 2006)

*(This report should be read in conjunction with that on "Internationally
Recognised Core Labour Standards in the People's Republic of China", produced by
the ICFTU for the same WTO trade policy review meeting on 4 and 6 April 2006)*

Executive Summary

Within the last decades, the Chinese economy has boomed and its exports have soared. Its accession to the WTO in 2001 is portrayed by many as a milestone in its development and a symbol of the success of the present international trade regime. But China's rise to the top ranks in exports and imports has come at a tough price – the progress of its people; those it was supposed to benefit.

A majority of China's population has already lost from the country's membership of the WTO and stands to lose from further trade liberalisation. The income of many has stagnated and may well be reduced further in the coming years. Similarly, the employment effect of China's accession to the WTO has been negative, with substantial numbers of people made jobless in several industries. Moreover, China's successful poverty eradication in the early 1980s stagnated when the country's trade liberalisation began in the 1990s and continued in the new millennium, and will not be countered by the country's deeper integration into the WTO.

At the same time as China is portrayed as the main winner of the international trading system, the country is still sweat-shopping its way to success, basing its competitiveness on unnaturally low wages and the exploitation of a workforce without the means to represent itself. It might have as many newly unemployed people as the rest of the world together and will have to create up to 300 million new jobs in the next decade to keep unemployment from rising to unbearable levels. Around 250 million of its people, 16.6 percent of its population, still live on less than US\$ 1 a day and close to 700 million of its people, 47 percent of the population, live on less than US\$ 2 a day. And within just two decades, China has become one of the most unequal countries in the world.

The experience of China shows that trade liberalisation alone and success in exports does not ensure social progress and development. It highlights that trade negotiations too often are made in the dark, without any assessments of the consequences they will have, and that liberalisation should be complemented with policies to curb its negative consequences. And it illustrates that trade liberalisation will put downward pressure on social and labour standards, if these standards are not secured in and through the regulations governing these liberalisations.

Growth & Trade in China

China's rapid economic transformation, sustained growth and soaring exports have made the country a major player in the global economy and world politics.

For the last two decades, growth has averaged 9.5 percent, and it is expected to continue at that pace for some time. With a GDP of US\$ 1.83 trillion in 2005, the size of its economy exceeds that of a number of major European countries and within five years, it may be exceeded by only three other world economies. Moreover, with a contribution to global GDP since 2000 almost twice as big as the next three largest emerging economies (India, Brazil and Russia) combined, it is already far ahead of its closest competitors.

The country's exports have been one of the main drivers of this development. In only a quarter of a century, China has become a major trading nation, with exports rising from US\$ 2 billion in the late 1970s to US\$ 752 billion in 2005. Continuing at the present pace, China stands to be the largest exporter in the world by the beginning of the next decade. Interestingly though, the change in its exports has not only been quantitative but qualitative. In the early 1990s, textiles and light manufacturing made up more than 40 percent of the export portfolio, the same figure which today represents exports of heavier machinery, transport and electronics, up from 17 percent in 1993. China's imports have matured at similar speed. This makes the country a highly open economy. Indeed, the sum of its exports and imports have risen to two thirds of GDP today – an uncharacteristic feature for countries of continental size and large populations. India, Brazil, Japan and the United States in comparison do not even reach a ratio of one third.

This rise is often viewed with some concern from abroad. China is portrayed as the world's factory floor and expected to continue to do well in international trade in the future. It holds strong cards with which it can continue to trump its contestants, such as the ability to supply labour intensive goods for a long time to come, thanks to a vast reserve army of underemployed labourers in its rural areas. Furthermore, it also attracts foreign firms whose intention is to occupy a portion of the rapidly growing domestic market, while the country's macro-economic governance has been receiving favourable marks from international organisations in the recent years.

But in the midst of its success the country is also facing serious challenges and major problems. Challenges and problems, in fact, that are closely interrelated to the country's economic rise and success in international trade. And the list is long: unemployment in the cities, a weakening social system, environmental degradation, increasing gaps between incomes in the coastal areas and the heartlands, stagnating poverty eradication, low employment creation and the prospect of working conditions under pressure for several decades to come.

WTO - A Wrecking Ball for China's Economic Modernisation

China embarked on a non-stop route of economic reforms in 1978. These took off in the agricultural sector and were from then on gradually extended to industry and large parts of the service sector. Greater rein was given to market forces and much of the traditional price regulation was finally abandoned at the beginning of the new

century. During the reform years, a company law was introduced that for the first time that for the first time allowed private individuals to own enterprises, a number of competition laws were enforced, foreign direct investments were permitted, tariffs were reduced and the state's monopoly on export trading abolished.

Thus, when China entered the WTO in 2001, the most profound changes in its economic transformation had already taken place. In itself, membership of the WTO has therefore not imposed larger changes on China than many parts of its reform programmes had already done. Yet, the course that was entered when the country's compass was set on WTO accession might have been the strongest force in China's still ongoing economic transformation.

Rather than just a goal by itself, membership of the WTO has been a means to fulfilling a broader goal: the transformation of China's economy into a modern and successful process of capital accumulation and the country into a manufacturing powerhouse. Thus, within the framework of the global market system, the Chinese government is overseeing a process of reform that – from the point of view of the ruling party – failed in the former USSR. It has therefore acknowledged that it has limited room to manoeuvre and will constantly face new challenges to its endeavours.

Hence, as early as 1986, China requested entry to the WTO's predecessor, the General Agreement on Tariffs and Trade. Against early expectations, it took fifteen more years before membership was secured, following pace-setting agreements with the United States in 1999 and the EU in 2000. In the end, the country agreed on almost all demands made by the main WTO members, although it had to accept additional commitments that were not usually imposed on developing countries. Indeed, several commentators wondered why the country, after already having scored impressive gains in international trade, accepted such additional terms. And why it so wholeheartedly accepted the canons of the open market economy and its implications, including fiercer international competition for its own firms, with a strong prospect of hurting the country at home.

The unavoidable adjustment costs notwithstanding, WTO membership was viewed as an efficient lever to sustain the rapid transformation and growth performance of the Chinese economy, which the country's government had and still has several motives to find indispensable. At the end of the day, when WTO membership was secured, rather than changing the country overnight, accession primarily confirmed a range of changes that had already taken place. Within industry, for example, tariffs had already fallen from 46.5 percent in 1992 to 25 percent in 1995, and further fell to around 13 percent in 2001. Non-tariff barriers had also already been slashed significantly. The monopoly position of the 'foreign trade corporations' had eroded progressively, as trading rights were granted to lower echelons of government and to large individual enterprises. Foreign investors were already entitled to conduct exports on their own, and the exchange regime had been reformed at the time of accession.

Trading off people's progress and development

While China's economy has benefited from the country's economic reforms in the last decades and a certain measure of development and social progress has ensued,

the benefits of China's WTO membership can certainly be called into question. As will be shown below, China's accession to the WTO has had negative employment consequences, has been heavily involved in stalling the country's poverty eradication, and has left the majority of its people – its peasants – worse off.

All in all, the incidence of extreme poverty in rural China declined from 29.2 percent in 1990 to 13.8 percent in 1996, but then stopped declining. In urban China, it declined from 2.5 percent in 1990 to 0.6 percent in 1996 but then, once again, stopped declining. And in the realm of employment a similar picture appears: employment conditions showed significant improvement in both rural and urban areas from 1990 to 1996 while in the subsequent period from 1996 to 2002, rural employment conditions continued to improve but urban employment conditions worsened substantially.

This highlights, indeed, the flaws in the model of trade liberalisation advocated and facilitated by the WTO, which leaves no space for social and developmental concerns, and which does nothing to alleviate the externalities it creates.

Employment

Notwithstanding China's export success, which has been enhanced through WTO membership, the negative aspects of WTO accession on employment are already a reality. This is coming through import competition and the resulting closure of inefficient domestic firms, especially those in the state sector. However, this impact will not be evenly spread across industries but will hit hardest the areas of agriculture, automobiles and machinery. Estimates by World Bank researchers suggest that employment in the agricultural sector will be reduced by 9.6 million, 3.6 percent of the current total, automobiles by 5 million, 14.5 percent of the total, and machinery by 5.8 million, 2.5 per cent of the total in the first seven years after accession.¹

Though effects differ from industry to industry, the overall employment situation following WTO accession is very challenging. China's labour force will grow by around 80 million people over the next decade, from approximately 742 million in 2000 to more or less 822 million in 2010. Considering these new entrants to the labour market and the continuing employment losses in agriculture and in state-owned enterprises, China will need to create 10 to 20 or 30 million new jobs each year. This is much higher than China's current job-creation capacity. Thus, over the ten year period, high technology and advanced manufacturing sectors are not expected to be able to add more than one tenth of that. The main source of job creation will therefore have to continue to be labour-intensive industries, such as textiles and services.

Though WTO membership brings advantages too, the negative employment impact of the accession stands to be greater than its positive effect, especially in the short run. Those benefiting straight away are primarily qualified white collar employees and private capitalists, the people who have already gained most over the last ten years of reforms, while those who are losing are many blue-collar workers, farmers and unskilled office workers, those whose income has remained more or less stagnant for the last ten years.

Inequality and poverty

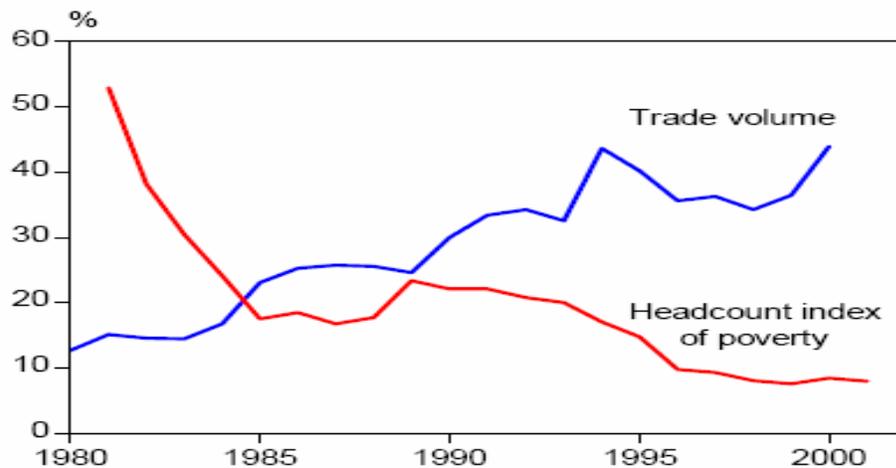
Just as WTO membership does not seem to have had a positive influence on employment in China, it does not seem to have changed the trend of rising inequality or to do much positive for poverty eradication in the country. Indeed recent Chinese history shows no positive correlation between poverty eradication, the opening up of markets and participation in international trade.

China experienced a dramatic decline in poverty in the first few years of the 1980s, with the rural poverty rate falling from 76 percent in 1980 to 23 percent in 1985. The late 1980s and early 1990s were more difficult periods for China's poor, with poverty actually rising in some years. Progress was restored around the middle of the 1990s, where rural poverty dropped to 11.5 percent (1998). The late 1990s, however, saw a slow down in poverty elimination again, and in 2001 the rural poverty rate stood at 12.5 percent.ⁱⁱ

The early 1980s saw high growth in agricultural output and rapid rural poverty reduction in the wake of the de-collectivisation and the privatisation of land rights under the 'household responsibility system'. Agricultural land had previously been farmed by organised brigades, in which all members shared the output equally. These reforms were without doubt important in stimulating rural economic growth at the early stages of China's transition.

Overall, there are strong reasons to be sceptical of any positive correlation between trade liberalisation and poverty eradication. The bulk of the trade reforms did not occur in the early 1980s, when poverty was falling most rapidly, but later, notably with the extension of the special economic zone principle to the whole country in 1986, and from 1995 and up to China's accession to the WTO. Average tariff rates fell only slightly in the 1980s and non-tariff barriers actually increased. And some of the trade policies of this early period were unlikely to have been good for either equity or efficiency. Arguably the bulk of China's trade reform has been after the times of most rapid poverty reduction, and indeed in times of relatively stagnant poverty eradication.

China's Barriers to External Tradeⁱⁱⁱ									
	Mean tariff rates (%)				Non-tariff Barriers (%)				
	1980-83	1984-87	1988-90	1991-93	1980-83	1984-87	1988-90	1991-93	1994-96
Primary	22.7	20.6	19.1	17.8	n.a	19.7	58.9	4	4
Manufactured	36.6	33.2	34.3	37.1	n.a	16.1	34.4	1	1
All Products	31.9	29.2	29.2	30.6	n.a	17.2	42.6	2	2

Figure 2: Poverty rate and trade volume in China by year

Since China had already started to adapt to the expected change well before its official WTO accession in 2001, another way of looking at the question of trade and poverty eradication is by dividing the time around accession to the WTO into two periods – the lead up, in which tariffs started to fall in anticipation of accession, and the period from this point onwards; and then analyse the impacts in these two periods. From 1995 to 2001 an overall gain of about 1.5 percent in mean income took place. In the next period, 2001-2007, the development in mean income is so far neutral and it is expected to continue to be so. From 2001 to 2007, poverty is projected to increase slightly as a result of the price changes most probably taking place after the remaining tariff changes.^{iv}

Predicted Aggregate Impacts of WTO Accession in China ^v			
	Rural	Urban	National
Mean gains (Yuan/Capita)			
1995-2001	34.47	94.94	55.49
Percentage of mean income			1.54%
2001-2007	-18.07	29.45	- 1.54
Percentage of mean income			- 0.04%
Poverty Impact – Headcount Index, %			
Official poverty line			
Baseline (1999)	4.38	0.08	2.92
Simulated: Less Gains 1995-2001	4.56	0.08	3.04
Simulated: Plus gains 2001- 2007	4.57	0.07	3.04

\$1 a day (1993 PPP)			
Baseline (1999)	10.51	0.29	7.04
Simulated: Less Gains 1995-2001	10.88	0.28	7.28
Simulated: Plus gains 2001- 2007	10.81	0.28	7.23
\$2 a day (1993 PPP)			
Baseline (1999)	45.18	4.07	31.20
Simulated: Less Gains 1995-2001	46.10	4.27	31.88
Simulated: Plus gains 2001- 2007	45.83	3.97	31.60

All analyses suggests that trade openness in China has had a negligible effect on total poverty – in fact halting poverty eradication rather than enhancing it. Moreover, inequality is expected to be influenced negatively by WTO membership: about three-quarters of rural households are predicted to lose real income in the period 2001-07. This scenario is true for only one in ten urban households.

This loss for rural households, which still make up two thirds of the Chinese population, is due to a combination of falling rural wages and increases in the prices of the main consumption goods of this group. These developments in the rural areas, mainly because of liberalisation in the agricultural sector, increase the incentives for rural workers to leave the farmlands and look for work in the cities. Thus, if they could, research suggests that 28 million agricultural workers would leave their sector to look for manufacturing work – a change that would put downward pressure on unskilled wages in urban areas, one that is forecast to reduce them by up to 5 percent.

In fact, rural poverty is still a major problem in China, one that might be exacerbated in the near future and one that is intrinsically linked to the country's WTO membership. Thus, in 2004, China's State Statistics Bureau acknowledged that the number of rural people living in extreme poverty actually increased from 28.2 million in 2002 to 29 million in 2003, despite rapid GDP growth. And, even more significantly, from 2000 to 2002, 42 percent of rural households experienced decreased income in absolute terms.^{vi} Most analysts see this rise in poverty as an effect of trade liberalisation in the form of increased agricultural imports, and expect China's small farmers to face even greater hardship as they struggle to compete against the highly subsidized global agribusiness that is now entering China.

In Guangxi, this link between trade and poverty is very clear. The province once had a thriving sugarcane economy but when China became a member of the WTO, cheap, highly subsidized sugarcane flooded its market and millions of Chinese sugarcane farmers were pushed into poverty (most farmers in this region owned less than one hectare of land). Thus, before China entered the WTO, the price for raw sugarcane was around 250 yuan per ton. After China entered the global agriculture market, sugarcane prices plummeted to 190 yuan per ton between 2002 and 2003, and then further to 170 yuan per ton between 2003 and 2004.^{vii}

All in all, trade liberalisation has been no panacea. Therefore, if the Chinese government's strategy for further growth, employment creation and poverty

eradication is based only on securing a larger share of global trade, it is doomed to fail. Unemployment will continue to rise, poverty eradication will stall and inequality will rise dramatically. Moreover, the Chinese experience – which by many is seen as a success story of the virtues of international trade liberalisations – pays testimony to the critique that free trade alone does not ensure jobs, development and poverty eradication.

China in the WTO: Leaping Forward or Backward?

Within the last decades China has emerged as the world's manufacturing power house and as one of the world's leading exporters. And it is generally conceived as the winner *per se* in and of international trade. But winning in this game has not created a victorious feeling in its huge population, which is left exploited and without a decent share of the country's recent prosperity. China is still sweat-shopping its way to success, basing its competitiveness on unnaturally low wages; it might have as many newly unemployed people as the rest of the world together; is experiencing a surge in inequality; and finds half of its people deadlocked in poverty.

Sweat-shopping its way to success

China's main comparative advantage is its cheap labour. Low pay, excessive hours, poor working conditions and minimal other costs have been its road to success. It is a road that China is mastering, foreign enterprises appear to appreciate, and that the country's authorities seem set to continue down. But it is a 'low road'. One based on eliminating and minimising obstacles and hindrances rather than constructively building competences and opportunities. One of downsizing the public sector, exploiting the environment, abandoning welfare, pressuring the workforce, creating flexibilities at the price of security, constantly reducing prices and lowering labour costs. One which adds only a minimum of value at each stage of production, in China mainly relying on the low wages paid to local workers.

Productivity in the country is still very low. In fact, in the booming manufacturing industry, measured by GDP per person employed in the sector, China is up to 30 times less productive than countries like the US and Japan. And Germany and Finland are 20 times more productive than China. Even in comparison with countries that the country is defeating in the export markets, China's productivity per employee is low: Brazil is 6.71 times as productive, Malaysia 4.58 times and Thailand 2.87 times.^{viii} The main reason for this low productivity is the lack of technologies in China's manufacturing industry. But missing educational and skill-enhancing investment in the labour force is also a reason. And more interestingly, international experience shows that the short term gains that sweatshop conditions might give to producers are more than lost in comparison with the long term productivity gains that having a healthy, motivated and increasingly competent staff provide.

In spite of its low productivity, China has seen an explosion in private companies and corporations since the inception of its economic transformation. Some have been set up by Chinese, others by foreign investors. But only a fraction of them have delivered decent work enabling a decent life to their employees. The majority of them exploit and abuse their workers on an unimaginable scale. Thus, the people who produce the products that are flooding most of the world have 60-70 hour working

weeks, live in dormitories with 8-16 people in each room, earn less than the minimum wages which go as low as US\$ 44, and often their only prospect if they should get injured at work is unemployment.

A recent study showed that only 33.4 percent of private enterprises provided their staff with medical insurance, only 8.7 percent offered pension plans and just 16.6 percent had unemployment insurance. Unsurprisingly, the insured staff members were mostly those in senior management positions or high level technical staff. Most of the rank and file generally did not receive any of these benefits, the survey showed. All in all, only 14.5 percent of the workers interviewed were covered by medical insurance, while only 22.7 percent and 6 percent of the workers had pension and unemployment insurance.^{ix}

Working in the many old and new factories in China poses a serious threat to health, well-being and safety. Statistics from the Chinese Centre for Disease Control and Prevention show that 83 percent of township enterprises have work environments with varying degrees of occupational hazards, and that about 34 percent of the workers in these enterprises are affected by harmful levels of dust and toxic substances. As a result, about 15 percent of workers in township enterprises develop or are suspected of developing various occupational illnesses. About 37 percent of the foreign-invested factories were shown to have hazardous conditions with 34.7 percent of workers employed in these plants in danger of developing occupational illnesses.

Once again, it is the workers who work the most, are paid the least and have the least insurance that are most vulnerable at work. Thus, there is a clear correlation between being economically exploited and being at risk of losing a limb. And contrary to widespread conjecture, no evidence suggests that work injuries are less frequent in the factories that are foreign owned or produce for exports. Moreover, the so far limited regulatory efforts to avoid accidents give little hope for better times as such regulation reportedly is very easy to avoid.

China's workers should in theory, be able to avoid accidents just by demanding that their employers follow the law. The law in itself is not that bad – but the implementation of it surely is. Hence, it does not appear that the right to 'stoppages' over health and safety issues is very often respected. Rather, the numerous examples of employees being forced to continue working in unsafe conditions show that workers in practice have little confidence in using their rights to 'work-stoppages' under the Labour Law, the Trade Union Law and the Occupational Safety and Health Law.

All in all, there is a lack of consistent and regular monitoring of standards throughout China due to insufficient allocation of financial and personnel resources. Both collusion at the local level and widespread corruption are exacerbating the problem. Many localities turn a blind eye to problems or are part of the management or ownership of the enterprise in question.

Overall, preliminary figures on safety in the workplace in 2004 reveal that there were 9,864 industrial accidents in privately-owned mines and factories in which 11,278 workers were killed. These figures represented 67% and 68% of all accidents and fatalities nationwide, which is a significant increase over 2003 figures. Statistics

show that China reported 3,341 coal mine accidents in 2005, which killed a total of 5,938 people.

No jobs in sight

In spite of China's impressive growth and its success as an exporter, most Chinese have to look hard to see the signs of progress in their personal lives. Indeed, many of them would end up looking in vain. Around 250 million of the country's people, 16.6 percent of the population still survive on less than US\$ 1 a day and close to 700 million, 47 percent of the population, live on less than US\$ 2 a day. Inequality has been rising sharply and China is now among the most unequal countries. There may be as many newly unemployed former industrial workers in the country as in the rest of the world put together. And most workers struggle to get by and risk losing their lives and limbs every day.

Surprisingly, China's economic rise and emergence as a labour intensive, leading manufacturer of cheap products for the whole world has resulted in a minimal number of new jobs. Thus, according to estimates from the World Bank, in the 1980s, when China's economic growth was at 9.3 percent a year, net employment growth was around 3 percent. And similarly in the 1990s, when economic growth was about 10.4 percent, net employment growth was as low as 1.1 percent per year.

All in all, between 1996 and 2001, the number of urban workers fell from 149 million to 108 million, a fall of 41 million or 28 percent. And what is worse, the new jobs created in the country are of even lower quality than the ones that were shed, since they are mainly of the informal and self-employed kind. As a consequence, this group climbed by 13.3 million, a 57 percent increase, in the urban areas from 1996 to 2001.^x

As China's population has increased significantly and large numbers of people have entered the labour market over the last two decades, during which employment creation has been weak, the country finds itself confronted with a giant problem of unemployment. Over time, more and more sacked workers become permanently unemployed. Their chances of reemployment have fallen due to the country's increasing oversupply of labour.

The Ticking Bomb of Unemployment

Official Chinese statistics are a maze of confusion rather than an enlightening source of information. In fact, China keeps most of their central statistics secret – not least the ones on employment and other associated issues such as protests and strikes. Thus, employment, along with other labour related areas such as protests, strikes and structural reform, is the subject of two main regulations issued jointly by the State Secrets Protection Bureau. The first was issued in 2000 by the State Secrets Bureau and the Ministry of Labour and Social Security (MOLSS), and the other by the All China Federation of Trade Unions (ACFTU) and the State Secrets Bureau in 1996. There are three main areas of state secrets; “top secret” (juemi), “highly secret” (jimi), “secret” (mimi). Finally there is “internal” (neibu) which, although it is not strictly a state secret, constitutes internal material which should not be disclosed.

without approval of the relevant organ. The two regulations dealing with labour related-state secrets include highly secret, secret and internal classification.

So when official Chinese statistics on employment and unemployment are both unclear and most often kept secret, other sources must be sought. For a long time, nothing but qualified guesses and estimations existed. But in late 2005, the International Labour Organisation released a path breaking study of the recent trends and future challenges of employment in China.^{xi} The study, first of all, analyses employment creation from 1990 to 2002, and identifies two quite different trends during this period.

Throughout the period of 1990 to 2002, aggregate employment in the Chinese economy grew at an average annual rate of 1 percent. This growth was fully accounted for by China's cities. Thus, urban employment growth was at 3.5 percent per year, while rural employment showed zero growth. In spite of the cities' industrialisation in the period, this urban employment growth covers only irregular employment – that is, migrant workers and urban laid-off workers, who hold casual wage-employment, in construction or services for example, or are self-employed, in street vending, repair services and the like. Thus overall, employment conditions in urban areas actually deteriorated in the period. In contrast, employment conditions in the rural areas improved, since regular employment grew while irregular employment declined.

Employment Growth 1990-2002^{xii}

		Percent annum	per
	Rural	Urban	Total
Formal	3.3	-3.0	-0.6
Regular	1.1	-0.4	0.8
Irregular	-2.3	18.5	3.2
Total	0.1	3.5	1.0

However, from 1996 to 2002 employment growth was due entirely to a dramatic growth of irregular employment in the urban areas. Formal employment in urban areas showed a steep decline and the growth of informal employment was not sufficient to prevent a rapid decline in regular employment. Such a decline is a negative sign in terms of labour market sustainability and societal well-being: growth of regular employment is a true indicator of growth of labour demand while growth of irregular employment is a symptom of growing excess supply of labour.

As already mentioned, the mass layoffs in state owned enterprises began in 1995 and claimed more than 50 million workers' jobs in the next five years. Thus, the unfavourable employment trends in urban China during 1996-2002 are mainly attributable to the elimination of workers in this sector. All in all, some of the urban job-losers did find new jobs in the emerging informal sector, some became

unemployed and some withdrew from the labour force, with the latter part being so big that the labour force participation rate of urban residents fell from 72.9 percent in 1996 to 66.5 per cent in 2002.

The loss of jobs in China went hand in hand with gains in productivity. From 1996 to 2002, when manufacturing employment declined at a rate of more than 3 percent per year, the growth of labour productivity was nearly 12 percent. This suggests that the poor employment effect of growth in this period is explained by both the process of shedding of labour in the SOEs and rapid technological change. Yet this point that employment conditions worsened in the period has been hardly mentioned, whilst talk of China's economic miracle became more and more dominant.

Output and Employment 1990-2002^{xiii}

	Average annual rate of growth in percent		
	1990-96	1996-2002	1990-2002
Output			
GDP	11.3	7.5	9.3
Agriculture	4.1	2.7	3.6
Manufacturing	14.6	8.7	11.2
Other industries	20.0	8.3	14.0
Services			
Employment			
Total	1.6	0.1	0.8
Agriculture	-0.9	-0.2	-0.4
Manufacturing	2.1	-3.1	-1.1
Other industries	3.5	0.4	1.5
Services	7.2	2.4	4.6

As in most other developing countries, self-employment is still a significant form of employment in China. Despite China's recent industrialisation and strong economic results, the relative importance of self-employment has remained stable. On the other hand, formal wage-employment has declined in importance and informal wage-employment has risen in importance. Again, a negative sign for the people trying to live decent lives. Most remarkably though, the change in the structure of employment was healthier in the rural economy than in the urban economy. In the latter, in contrast, self-employment, informal wage-employment and irregular employment have all grown in importance while the relative importance of formal wage-employment has declined.

Structure of Employment by Status^{xiv}

Percentage Distribution

	1990	1996	2002
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Total						
Self-employment	56.1	(64.0)	56.3	(61.9)	54.5	(63.1)
Regular Wage Employment	31.5	(36.0)	34.7	(38.1)	31.9	(36.9)
- Formal sector	31.2	(35.6)	33.0	(36.2)	27.3	(31.6)
- Informal sector	0.3	(0.4)	1.7	(1.9)	4.6	(5.3)
Irregular employment	12.4	-	9.0	-	13.6	-
Rural						
Self-employment	73.7	(85.1)	75.3	(81.5)	76.9	(77.6)
Regular Wage Employment	12.9	(14.9)	17.1	(18.5)	22.2	(22.4)
- Formal sector	12.6	(14.5)	16.0	(17.3)	19.3	(19.5)
- Informal sector	0.3	(0.4)	1.1	(1.2)	2.9	(2.9)
Irregular employment	13.4	-	7.6	-	0.9	-
Urban						
Self-employment	3.7	(4.1)	8.9	(10.1)	9.6	(15.7)
Regular Wage Employment	86.8	(95.9)	78.9	(89.9)	51.4	(84.3)
- Formal sector	86.5	(95.6)	75.8	(86.4)	43.2	(70.9)
- Informal sector	0.3	(0.3)	3.1	(3.5)	8.2	(13.4)
Irregular employment	9.5	-	12.2	-	39.0	-

Note: Figures in parentheses show the distribution of regular employment

As mentioned above, mass unemployment in the cities has been a major consequence of China's reforms of the 1990s. In relation to this phenomenon, the ILO study concludes that the official estimates of registered unemployment "seriously understate the magnitude of the problem." They find that among workers who are long-term urban residents, the unemployment rate by 2002 was around 11-13 percent. The unemployment rate among rural migrants was much lower though, since the fact that most rural migrants end up in irregular employment means they face *underemployment* rather than *unemployment*. Moreover, when faced with unemployment, rural migrants can be expected to move, either back to their homelands or further on to pursue their luck in other urban centres.

Estimates of Chinas Urban Employment Rate in Percent ^{xv}

Year	Census data	Survey data	Official registered unemployment	Adjusted (official + _r unemployed)	Estimated unemployment
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1990	4.2		2.5	2.9	4.2
1991			2.3	3.2	4.7
1992			2.3	3.9	5.5
1993			2.6	3.2	7.1
1994			2.8	3.6	8.6
1995	7.7	9.6	2.9	4.3	7.7
1996			3.0	4.8	7.3
1997			3.1	5.5	9.2
1998			3.1	4.5	10.8
1999		11.6	3.1	6.3	12.5
2000	11.5		3.1	8.1	11.5

By and large, the poor development in employment conditions and opportunities in China confronts the country's policy makers with one clear challenge: to reverse the rising trend of unemployment and in irregular employment without restricting rural-to-urban migration. This requires accelerated growth of regular employment.

Inequality on the rise

China today experiences several problems related to social justice. Many of them are directly linked to its place in the global production circuit. A considerable number of people, despite working far in excess of the maximum number of working hours, do not receive a living wage and cannot afford to keep a family above the poverty line. Most migrant workers employed in the private sector in unskilled jobs are unable to keep their families in the cities and leave them at home to survive on the farm or in an extended family network. All in all, most wages for those employed at the lower end of the social scale do not pay enough to provide food, rent and other basics for a family – let alone savings, education for children or medical costs in the event of an illness or accident.

Though the last decades have seen some welcome increases in the living standards of many in China, more than half of the people are still living in poverty. Only 44 percent of the population has sustainable access to sanitation and 23 percent are without access to improved water sources.

When economies develop and transform quickly, their new growth is rarely balanced across their regions or sectors – and China is no exception. Indeed, it is clear that its pattern of growth has had a strong influence on the evolution of both poverty and inequality in the country. Thus, its sectoral and geographic pattern of growth has not been particularly pro-poor. With its *nouveau riche*, China has become a more unequal country. Overall inequality in disposable income – measured through the Gini index by UNDP – has increased from below 30 in the early 1980s to 0.44 in 2001, giving China an income disparity much worse than countries like India and Indonesia, at 0.32 and 0.34 respectively. And this difference has without doubt been growing for the last years, hence the rate might be closer to 0.5 today. The richest 10 percent of the population – who are almost 20 times richer than the poorest 10 percent – are responsible for 33 percent of the consumption in the country while the poorest 10 percent account for only 1.8 percent.

The national development in inequality has been mirrored at the provincial level. Thus, income inequality within urban areas has increased from a Gini index of 0.23 in 1990 to 0.32 in 2001, and risen from 0.31 to 0.36 in rural areas in the same period. Although China's inequality level is not the worst among developing economies – Brazil's and Malaysia's for example are still higher – its rapid increase is exceptional and quite worrying, since history shows that such gaps do not tend to narrow.

One thing is differences within regions and cities, another is disparities between these. The coastal areas of China have emerged as urban, economic powerhouses, while the interior regions still mainly rely on agriculture and have become known for their job-seeking migrants. As a result, disparities are very pronounced in the country: the ratio of urban to rural incomes increased from 2.2 in 1990 to 3.1 in 2002, meaning that rural incomes are but a third of those in the cities. And if measured in the richest parts of the country, the difference is indeed tenfold. While GDP per capita in the countryside is estimated to be US\$ 350 a year, it is US\$ 4,500 in Shanghai. The consequences of the rural poverty that these differences are based on are not hard to spot: in 35 poor and rural areas recently surveyed for a World Bank project, four out of ten children aged 7 to 15 had received no schooling whatsoever.

But in fact, the rising inequality in China is not just a problem of social justice. It also poses a challenge to overall poverty reduction, to continued economic growth and to political stability. Recent history shows that the Chinese provinces that started the reform period with relatively high inequality faced a double handicap: they had lower subsequent growth and the poor shared less in the gains from that growth. And moreover, that the provinces that saw a quicker increase in rural inequality saw less progress against poverty.^{xvi} Thus, rising inequality may well put a serious brake on China's pace of poverty reduction and its future growth. Moreover, developing its economy on the backs of its massive and cheap workforce, sacrificing workers' rights to achieve economic competitiveness in the process, is not a sustainable strategy for prosperity and welfare.

The Chinese government is increasingly recognising that the surge in inequality is posing a threat to the welfare and stability of the country. Hence, at the 2005/2006 NPC sessions the effort to build a "harmonious society" was emphasised again and again in recognition that social inequality is a major problem that desperately needs to be tackled. The Chinese government, however, is ignoring the root causes of the problem and is not taking the necessary steps to remedy it. If they were serious about changing the fate of the majority of their citizens, they would give them the basic rights – such as freedom of association and the ability to bargain collectively for their wages – that would empower them to gain a larger share of the country's new found wealth. As long as they do not do this, inequality in China can only be expected to keep on increasing.

ⁱ Zeng, Douglas Zhihua, *China's Employment Challenges and Strategies after the WTO Accession*, World Bank Policy Research Working Paper 3522, February 2005

ⁱⁱ See Ravallion, Martin, *Looking beyond Averages in the Trade and Poverty Debate*, 2004, for full statistics.

ⁱⁱⁱ Ravallion, Martin, *Looking beyond Averages in the Trade and Poverty Debate*, 2004

^{iv} Ravallion, Martin, *Looking beyond Averages in the Trade and Poverty Debate*, 2004

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- ^v Ravallion, Martin, *Looking beyond Averages in the Trade and Poverty Debate*, 2004
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