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WTO Compliance and Sectoral Issues
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Thank you Mr. Chairman for this opportunity to appear before the Commission. Hopefully, I can contribute in some measure to your deliberations concerning the public policy issues likely to face the United States regarding Chinese compliance with its WTO commitments.

Over the two couple of years I had the opportunity to serve on the Council on Foreign Relations Economic Task Force on China. Its report was issued in early October, 2001. While I dissented from the reports conclusions I would recommend it to you for the strength of its analysis of the underlying problems confronting China and the WTO.

I would much prefer, in the short amount of time we have at this hearing, to focus on what I feel are some of the most serious issues related to Chinese membership in the WTO. Also, I would like to place these issues within a context that is broader than typically discussed. While the vagaries of the WTO are technical, arcane, and often brutally boring, the fact remains that the actions taken by member states and their companies have a dramatic effect upon the lives of ordinary working people, and potentially upon U.S national security.

While China's accession to the WTO is accomplished fact, it is useful to review why it was perceived by the governments of both countries to be in their interest. Much rhetoric and complicated international geopolitical jargon was spewed forth during the political debates in the United States and in the official explanations of the Chinese government.

The reality was, I believe, simpler. China's leaders believed that their membership in the WTO was necessary to save the Communist Party. The United States government believed that only the continued rule of the Communist Party could ensure China would remain stable, and the stability of China is the paramount objective of U.S. foreign policy. One can reasonably argue, therefore, that the U.S. government agreed with Chinese leaders that continued rule by the Party, albeit not a doctrinaire communist one, but rather ruling organization operating an authoritarian government with only the tattered vestige of an ideology remaining, was in the U.S. national interest.

Certainly the U.S. government recognized the importance of the interests of its corporations and negotiated aggressively to secure them during the lengthy WTO

negotiations process. But, these economic interests were also perceived to be helpful in maintaining the legitimacy of the Party and furthering U.S. national security.

Warren Christopher, as Secretary of State, delivered a major speech that touched on the importance to the United States of stability in China. Other than this speech, there are few other utterances by Clinton administration officials about the importance of stability. There are none yet from the Bush administration. This is not so difficult to understand. Most people in this country would probably think such a policy cold, unbecoming of the United States, and China's leaders undeserving of such support. Therefore, it has always been easier and more palatable, for our leaders to sell China's WTO membership as creating a huge number of jobs for Americans while arguing that capitalism inevitably builds democracy. Neither is true, but it sounds much better than the stability argument.

While "stability" may be the objective of both governments, it is not a foregone conclusion that China's participation in the WTO will help it achieve it. Chinese leaders argue to the Chinese people that compliance with WTO rules is necessary if China is to modernize its economy and take its rightful place in the international community. What is uncertain is how much suffering Chinese workers and peasants will accept as a result of more rapid "economic reforms" caused by WTO compliance. It is this concern that preoccupies both Chinese leaders, and American government and business leaders.

Millions of Chinese workers still work for inefficient and uncompetitive state enterprises. Many millions more are still employed in agriculture, also largely uncompetitive in international markets. The Chinese banking system is fragile, largely because of bad loans to state enterprises. Corruption is still rampant, the rule of law virtually non-existent, and even modest political reform slowed as the generational change of leadership is orchestrated. A social welfare safety net is still a dream.

The gamble is that China can comply with its WTO agreements by managing the "social unrest" that is certain to follow from decisions such as closing large state enterprises or letting them go bankrupt. We are already hearing from many in the U.S. foreign policy community that we should be understanding even forgiving of Chinese non-compliance with its WTO obligations. We should be developing alternative dispute resolution mechanisms, they argue, including bilateral ones so that the WTO system is not overwhelmed by the filing of disputes.

This is clear recognition by these analysts that massive unemployment and the unrest it is likely to cause will persuade the Chinese government to slow or stop compliance in order to keep the Party in power. Stability is the primary concern. Managing change on this scale would be a daunting task for any democratic government. It is even more daunting for an authoritarian government such as China's.

The situation of urban industrial workers is likely to be most critical in the short run, although the condition of peasants should not be understated.

How the Chinese government manages this unrest presents a serious dilemma for U.S. policymakers. Allow me to provide a quick overview of the problem as we in the American labor movement see it.

The existence of independent trade unions is illegal in China. Only the Communist Party controlled All Chinese Federation of Labor (ACFTU) is allowed to "represent" workers. The ACFTU Chairman is a senior Party official who also sits on its important "Social Stability" committee. The ACFTU has no credibility among Chinese workers and been completely impotent to prevent such problems as the failure of state enterprises to pay workers for months on end. Spontaneous strikes are common. Workers who lead them, or attempt to form real unions are jailed. In fact, the ACFTU's real purpose is to control workers not represent them. Real collective bargaining does not exist. The top ACFTU official in a workplace is usually also the Deputy Plant Manager. In short, workers have no voice. Their only alternative is drastic action – demonstrations, taking managers hostage in plants, and the like.

The Chinese government currently tolerates a certain level of unrest since it knows the grievances are legitimate. But when things appear to be well-organized, spread into the community, or turn into protests against the government, the People's Armed Police (PAP) is brought in to repress the workers and peasants.

In the early 1980's the PAP numbered approximately 300,000. Today they are 1.5 million strong. Their primary purpose is to "maintain social stability" – read repress worker and peasant protests. Unlike the 1989 demonstrations, these protests are not broadcast on television to the rest of the world. But, if they become widespread, they will become as important, perhaps even more important than those of 1989.

What will the United States government do when the Chinese government uses the PAP to repress workers in the name of WTO compliance? The current answer appears to be we should let the Chinese government slow its WTO implementation so the most brutal forms of oppression are not necessary. It is unclear whether U.S. corporations who think investment and trade in China are important to their futures will sit quietly as the Chinese do not live up to their commitments.

Repression is difficult, if not impossible to "manage" over time. If it is the policy of the United States to help the Chinese repress workers and peasants to secure WTO compliance, there will certainly be domestic political implications in America. The absence of institutions forming the rudiments of civil society and even modest political pluralism, make the prospects of WTO compliance dim. All the alternative dispute resolution mechanisms our most creative minds can conjure can do little more, in my view, than delay the inevitable realization that China's leaders top priority is their survival rather than WTO compliance and that the two goals are incompatible.