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Commission  
Hearing on China's Role in the Origins of and Response to the Global  
Recession  
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Good morning. Chairmen Wessel and Slane, commissioners, thank you for the opportunity to appear before you today.

I believe that too often, the voices of ordinary people both here and in China get lost in the debate about our two countries. So I am particularly glad that you have invited me to share with you what I am seeing on the ground in China.

I have spent the last five years researching the Chinese economy, first as a reporter for the *Financial Times*, and then as an author. My book, *The China Price*, is an investigation into the sources of China's competitiveness as the world's leading manufacturer of consumer goods. To research my book, I spent time in Shenzhen, one of China's largest industrial cities, and spent two years talking to the factory managers, workers, labor activists and businessmen who enable American consumers to buy goods as cheaply as we do. I've just returned from a trip to the Chinese countryside, where Beijing is focusing many of its economic stimulus efforts. Today, I'd like to share with you some of the insights I've gained in my research. I'd like to make three main points.

First, China's primary focus this year will be creating jobs to avoid the social instability it fears unemployment would cause. Second, despite concerns expressed by Chinese officials and reported in the press, I believe that Chinese workers are not going to cause massive social unrest this year. And third and most importantly, China appears to be taking advantage of this crisis to strengthen its competitiveness and to address some of the imbalances that have developed during its rapid growth over the past two decades.

**China's concerns**

Let me start with China's concerns. Over the past several months, Chinese officials have stepped up their statements to the state-controlled media about the likelihood of unrest this year. In January, *Outlook Weekly* quoted Huang Huo, a bureau chief at state news agency Xinhua, as saying: "we are entering a peak period for mass incidents. In 2009, Chinese society may face even more conflicts and clashes that will test even more the governing abilities of all levels of the party and government." Earlier this month, Chen Xiwen, a senior rural planning official, warned that 20 million workers had already lost their jobs as a result of the economic downturn.

Privately, officials have been urging businesses to avoid large-scale layoffs. One senior government official told me that he had been instructed to watch

for and report any signs of protests or other instability. “The whole country is on high alert,” he said.

This year is politically significant because it is the 20<sup>th</sup> anniversary of the protests centered on Tiananmen Square and the 60<sup>th</sup> anniversary of the founding of the People’s Republic of China. There are also fresh demands for political reform: thousands of Chinese, including well-known intellectuals and government officials, recently signed a petition calling for, among other things, a new constitution, democratic elections, and the freedoms of assembly, expression and religion.

Beijing believes the economy and social stability are closely linked. In the fourth quarter of 2008, economic growth slowed to 6.8 percent, the slowest pace since 2001. Decreased American and European consumption has lowered China’s export volumes, which has in turn contributed to the failure of thousands of factories. Export volumes shrank 2.8 percent in December.

No one, not even the Chinese government, knows exactly how many factories have closed, or how many workers have been laid off so far. What is clear is that the manufacturing sector employs many of the country’s 150 million migrant workers. The wages they send home to their families in the countryside represent as much as 40 percent of household income in rural areas.

### **China’s response**

Beijing has responded to the crisis with a multi-pronged approach: create jobs and economic growth through public expenditure, stimulate domestic consumption, and reassure the most vulnerable workers. It has also cleverly managed the discussion of the impact of the global economic downturn by warning of hard times ahead and launching stimulus measures with big price tags early.

In addition to the \$585 billion package of stimulus measures announced in November, Beijing has introduced other initiatives targeted at boosting domestic consumption, easing the burden on rural residents, and retraining migrant workers. It has expanded a scheme to offer rural residents rebates on home appliances, computers and motorcycles and announced plans to set up 150,000 stores in the countryside this year alone. The cities of Hangzhou and Chengdu are handing out coupons for low-income residents to use at supermarkets.

There are countless projects Beijing could choose from to employ people and generate productive economic growth – countless roads to be paved, sewage treatment plants to be built, low-cost homes to be constructed. And in China, these projects are much more labor-intensive and cost-effective than similar projects would be in wealthier countries.

Almost as important as what Beijing has done is what it has not done. Since this crisis began, it has not tried to devalue the renminbi to make its exports

more competitive. It has not introduced major subsidies to help exporters survive this crisis.

### **Likelihood of worker unrest**

This time of year is a difficult time to measure unemployment in China. In the export manufacturing sector, because most Chinese factories' orders are heavily geared toward the Christmas season, it is not clear yet to anybody how severe the job losses will ultimately be. Many American companies are only now starting to place their orders for this year.

Nonetheless, I believe that unemployed migrant workers may not pose as much of a threat to social stability as some fear for three reasons. First, despite the fact that most Chinese migrant workers have no unemployment insurance and little safety net beyond their plot of farmland in the countryside, many are still optimistic. Workers I spoke to who have been laid off don't blame the Chinese government for their fate. The uncertainty of their daily lives in good times has prepared them to cope with a recession more calmly than their annual incomes would suggest.

Second, the migrants in Chinese factories today are very different from their parents. Many were born after China introduced its one-child policy in 1979, and therefore come from smaller families. Their ambitions are more economic than political. They want to buy an apartment, move to the cities, start their own businesses. If they're unable to achieve this dream as quickly as they had hoped a year ago, they're not going to hold the government accountable for it.

Third, there is no charismatic leader to rally migrants around the country together. Workers are much more likely to strike or sue their employer than even five years ago, and they are far better connected through mobile phones and the internet. But most of their protests so far have been specific and local – in response to unpaid wages or poor treatment, for example. The only labor union China allows is the state-controlled All-China Federation of Trade Unions. Independent labor activists are closely monitored and their activities curtailed.

China may well see more labor disputes this year than last, as factories skimp on wages and close their doors without paying their staff. And there may still be leaders who emerge to unify migrant workers, or other disadvantaged groups. But I believe, for all the reasons I have just explained, the risks of migrants causing instability on a national scale are relatively low.

### **Crisis as opportunity**

While I was in the Chinese countryside earlier this month, I met a migrant worker who has for the last 13 years made shoes for export in factories near the coast. His earnings were putting one daughter through college and another through high school. Now, he saw the writing on the wall – factories were closing. It was only a matter of time before he lost his job. When we met, he was putting together a plan to start his own business. He told me: this crisis is an opportunity.

Speaking to businessmen in China, I heard this refrain again and again. The CEO of a small internet company in Shanghai told me that he had taken advantage of the economic downturn to lay off his least productive employees. The head of a large American company's Chinese operations said that as his smaller rivals went bankrupt this year, he planned to acquire them.

Factory closures in China will undoubtedly cause short-term pain. But Beijing's long-term strategy is still to shift the focus of its economy away from reliance on low value-added, labor- and resource-intensive exports towards one that relies more on domestic consumption and higher value-added exports.

I believe the economic downturn will accelerate this inevitable adjustment. Just as American textile companies began to move away from Massachusetts a century ago, Chinese shoe, toy and textile factories are now moving off the coasts to inland provinces, where land and labor costs are lower.

As it has in other countries, this slowdown has exposed the imbalances that have developed as a result of China's extraordinary growth over the past two decades. China's safety net is too weak to catch most of its most vulnerable citizens – rural residents and migrant workers. That encourages those citizens to save more and consume less, and contributes to some of the imbalances we have seen in the global economy.

Beijing has pledged to spend \$124 billion to offer universal health care to all citizens. It has also promised to reform its pension system. These reforms, in theory at least, should help people feel more confident about spending money in the long run. These plans will undoubtedly take many years to implement, but in this downturn, China has wisely moved them up its list of priorities.

As China is using this as an chance to become more competitive, I believe that we in America might focus our efforts on the same. Like the Chinese, we too might see this crisis as an opportunity.

Thank you.