Chinese state-enterprise reform: Economic transition, labour unrest and worker representation

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Abstract

This paper explains rising labour unrest among China's state-owned enterprise employees through an examination of the tensions between the Chinese Communist Party (CCP) and urban industrial workers. In so doing, it assesses the way the CCP has responded to labour pressure for better industrial and political representation since the late-1980s, and how it has shown concern over workers' attempts to form independent labour organisations, seeking instead to contain an increasingly restive working class within the framework of state-controlled unionism. We argue that the CCP's relaxation of centralised control over a more open, 'mixed' economy has not been matched in the area of labour representation by a greater tolerance of autonomous organisation, leading to intensifying conflict with labour.

Introduction

This article examines the ways in which workers in China's state-owned enterprises (SOEs) have responded to the changing nature of those enterprises during the reform period since 1978. In particular, we assess the causes of the rising incidences of labour unrest among SOE employees from the second half of the 1990s onwards, as drastic restructuring of the state sector began to take place and unemployment reached its highest levels in China for decades. Protests over lay-offs, bankruptcies and unpaid wages and pensions reached a stage in which elements of the reform programme became threatened with

delay, as local and national governments sought to contain workers' resentment. Yet, as will be seen in this paper, sometimes these efforts to mollify workers succeeded only in further stoking their anger at what they perceived to be patronising and token concessions that did not address their most important concerns.

The intention of the analysis developed in this paper is to examine the tensions between state capitalism and state corporatism in the relationship between the ruling Chinese Communist Party (CCP) and urban industrial workers. In particular, we explain how the CCP has responded to labour pressure for better industrial and political representation since the late-1980s.

The Chinese government has shown particular concern over attempts to form independent labour organisations in this period, seeking instead to contain an increasingly restive working class, now subject to a high level of employment insecurity, within the framework of state-controlled unionism. We argue that the CCP's relaxation of centralised control over a more open, 'mixed' economy has not been matched in the area of labour representation by a greater tolerance of autonomous organisation, leading to intensifying conflict with labour, particularly in economically disadvantaged areas of the country.

Structured in the form of a contemporary historical account informed by labour-process analysis, we offer a contemporary narrative that documents the evolving relationships between workers, official trade unions, SOE management and the state. The evidence for our arguments is distilled from, on the one hand, information gathered during visits to state-owned steel companies in the process of implementing economic reforms,[1] and on the other, from archival/textual materials on the practices and effects of SOE restructuring, notable among which are specialist publications on the Chinese economy as well as news media, and company and state literature.

Whither SOE workers?

SOE workers have conventionally been viewed as being a very privileged group within Chinese society — an elite section of the workforce amply compensated for its still relatively low wage levels by the benefits of the 'iron rice-bowl' system of lifelong job security and the provision of social welfare through the enterprise. A lack of labour mobility and their dependence on the enterprise for such things as subsidised housing, medical care, children's

schooling, etc. have, in turn, been identified as major factors in SOE workers' relative political docility and loyalty to the ruling Chinese Communist Party (CCP), at least up until the end of the 1980s. 'Organized dependency' (Walder, 1986: 11), whereby workers were enmeshed in a network of individual patron–client relationships in the workplace, has been seen as a successful means of preventing disgruntled workers from resorting to any form of organised, collective resistance in most circumstances.

This view clearly has some basis in fact, since the largest and most prestigious SOEs — also those with the best resources in terms of social welfare provision — were, until the second half of the 1980s, the least likely to experience major unrest among their workforces compared with other enterprises. We have argued elsewhere (Sheehan, 1998; Hassard et al., 2005, 2007; and see also L. T. White, 1989) that the benefits of the 'iron rice-bowl' were always deliberately limited to a minority of the industrial workforce as a whole, with often far less generous benefits on offer in the more numerous small and medium SOEs, which could not count on such docility from their workers. The general view that the Chinese industrial workforce has been characterised by its passivity and the ease with which it could be controlled has in any case been challenged by other accounts that stress the relative frequency of unrest among Chinese workers. Such accounts also note the involvement of SOE workers in periodic protest movements that have questioned the legitimacy of the party that claims to rule in their name (Davis, 1988; Chan, 1993; Perry, 1994; Perry & Li, 1997; Sheehan, 1998; Hassard et al., 2006).

Even with reference to the pre-reform period, the depiction of SOE employees as a favoured elite unwilling to bite the hand that fed it was somewhat one-sided. Indeed, since 1978, as reform has progressed, the steady undermining of the 'iron rice-bowl' system has further reduced the effectiveness of what was never a completely reliable method of containing workers' grievances and assertions of collective interests.

The recent outbreaks of labour unrest, moreover, are not simply the reaction of a previously privileged group to the loss of its exclusive benefits, for some SOE workers now explicitly reject the enterprise-based paternalism of the past. Rather than campaigning for its reinstatement, such workers are instead organising independently to press for the legal rights they feel are due to them now that they find themselves in an insecure, quasi-capitalist employment relationship in their enterprise. These legal rights include the right to adequate welfare and pensions, and the right to organise their own trade unions.

Before focusing on the most recent phases of China's transition, we turn for historical context to an examination of workers' responses when the CCP government first expressed its intention to end the 'iron rice-bowl' system in the late-1970s and early 1980s. Given the early success of agricultural reforms in boosting rural incomes, workers had high expectations of substantial material benefits from urban reforms — expectations that were deliberately encouraged by the authorities (Yang, 1989). Workers also anticipated a marked improvement in enterprise management (Sheehan, 1998), the incompetence of which they saw as being at least as important a factor in low industrial productivity as their own much-criticised job security and egalitarianism (G. White, 1987).

Yet alongside these positive expectations, the fear of a return to the pre-1949 era of high levels of job insecurity and unemployment also became evident at an early stage (Sheehan, 1998). Workers' misgivings about reform were much more than simple opposition to a change in the nature of the Chinese enterprise that would rob them of their material privileges. Workers have not at any stage, in fact, been opposed to reform as such, since they of all people have been well aware of the many problems within state-owned industry in China, and of the need for significant change in order to improve efficiency and raise productivity (Sheehan, 1998). Rather than seeking to preserve the old system for its own sake, they have opposed corruption and perceived unfairness in the conduct of the reforms, and increased inequality and economic hardship for workers' households as a result of reform. They have also consistently objected to having the blame for the poor performance of state-sector industry laid at their door. Throughout the reform period, the government has pointed to the old, egalitarian 'eating from one big pot' mentality of the 'iron rice-bowl' employee as being the main or even the sole cause of China's low labour productivity (Howard, 1991; Sheehan, 1998). But while the state-controlled press presented the excessive job and wage security of the 'iron rice-bowl' system as a distortion of socialism, SOE workers themselves persisted in viewing it as perhaps the only unequivocal achievement of the pre-reform era, and certainly the feature of that era with most value to them.

By the end of the 1980s, job insecurity had emerged as workers' main worry in the new economic environment, affecting virtually the entire state-sector workforce and not just the minority actually affected by the introduction of fixed-term contracts (Walder, 1986; Wilson, 1990; Warner, 1995) with 'job security panic' (Walder, 1991:

478). This new perception of insecurity, together with concerns that stagnating wages were being overtaken by high urban inflation, in large part accounts for the willingness of so many workers to support and participate in the democracy movement of spring 1989. Another factor that should be taken into account here is the extent to which workers felt their social and political status to have fallen as a result of the reforms. Measures such as the introduction of the 'factory director responsibility system' (FDRS) (see Chevrier, 1990; Child, 1994) and a general emphasis on increasing the power of top managers at the expense of workers, the workers' congress, the official trade unions, and even the enterprise party branch, severely eroded any sense workers had of being 'masters of the enterprise' in any real sense. The danger that the FDRS would undermine the (in any case inadequate) machinery of democratic management in Chinese enterprises had been recognised at the time the system was introduced, but nothing was done to prevent this outcome (Sheehan, 1998). By 1989, the labour-movement press was comparing highly centralised management under the FDRS to the Soviet-inspired 'one-man management' of the early 1950s (*Workers' Daily*, 27 June 1989).

The contracting-out of enterprises to managers for fixed periods also contributed to workers' perceptions of themselves not as employees of the state, with the political status that went with that, but simply as hired hands — wage-labourers with no stake in the enterprise beyond 'working for the factory director', whom they had come to perceive as being in effect the 'owner' of the enterprise (Wang & Wen, 1992: 265–6). Where contracting-out decisions involving their own enterprises were announced to workers on the evening news without any prior consultation, this could only increase their sense that they were being treated as part of the fixed assets of the establishment, which management could dispose of as it pleased. To workers, it seemed there had been a final breach in the social contract that had offered them security of employment, a minimum standard of living and a limited say in management in exchange for tolerating low pay and not organising independent unions.

This breach of an implicit industrial and political bargain thus left workers in a much more unambiguously antagonistic relationship *vis-á-vis* management and state authorities. Their increasingly frequent response to this shift in the months leading up to the 1989 democracy movement was the use of strikes and self-organisation, although these kinds of action were by no means as rare before the late-1980s as is often supposed (Sheehan, 1998). The movement itself included the widespread formation of

autonomous workers' organisations explicitly directed at playing a political role beyond the enterprise as well as at defending workers' interests within it. SOE workers, including some from several of the largest and most prestigious enterprises in the country, played a particularly prominent part in the movement in 1989, although the CCP has consistently sought to downplay or deny this (Hassard & Sheehan, 1997; Sheehan 1998).

Workers and enterprise reform in the 1990s

Thus workers had already manifested, in the democracy movement of 1989, 'a growing desire ... to be treated as full citizens' (Walder & Gong, 1993: 28), declaring that 'we are not prison labourers who happen to live in society, but legal citizens of the republic' (Mok & Harrison, 1990: 118). They also showed clear signs of perceiving themselves to be in much the same position vis-á-vis enterprise management as employees in privately-owned establishments, which in turn they saw as giving them the right to form completely independent organisations through which to defend their collective interests against those of SOE management. These trends only intensified as the 1990s progressed, and particularly since the long-anticipated announcement came, at the fifteenth CCP congress of September 1997, that henceforth only about five hundred of the largest and most strategically significant SOEs would be kept in long-term state ownership, with the rest allowed to close, merge or go bankrupt as the market dictated. The unprecedented large-scale lay-offs from SOEs that have since taken place have only reinforced the view of many SOE workers that they have become the main losers in the reform process to date. The level of job insecurity that brought workers onto the streets during the late-1980s and in the 1989 democracy movement paled into insignificance when compared to the plans of many large SOEs to shed up to 50 per cent of their workforces (Hassard & Sheehan, 1997; Kuehl & Sziraczki, 1995). The high incidence of unrest among former and current SOE employees should not, therefore, come as any surprise, and nor should the fact that protests are frequently accompanied by calls for independent unions.

SOE downsizing in the late-1990s

We have described elsewhere (see Hassard & Sheehan, 1997; Hassard et al., 2005, 2007) how managers in the state sector have been charged by the CCP government with the responsibility of avoiding

widespread unrest among workers through the careful preparation and conduct of lay-offs. We have also argued that this is a responsibility generally taken very seriously by the top management of the largest SOEs. In most cases, top management has also benefited from a level of resources that enabled them to 'make the channel before the water comes' — in other words, to prepare or facilitate acceptable alternative destinations for redundant workers before the latter are actually forced out of the SOE workforce. In the mid-to-late 1990s, many large SOEs established internal labour markets to provide retraining and redeployment for surplus workers, and also set up a range of service-industry sub-companies to absorb redundant labour, as well as offering incentives for early retirement or voluntary severance in the form of start-up funding for small businesses (Sheehan, 1998; Hassard et al., 2006). However, such SOEs also set themselves dates by which very large reductions in the workforce were to be achieved. Also, Premier Zhu Rongji's insistence on a 2000 deadline for 'turning round' all SOEs was constantly repeated in the press; so even here it was not possible to avoid compulsory redundancies for much longer. The largest SOEs were thus by no means immune from unrest over job losses, unpaid wages and pensions and the like (*South China Morning Post*, 10 December 1997), and large-scale compulsory lay-offs were only expected to add to the level of discontent.

The situation was already much more serious, though, for small and medium SOEs, many of which had long been running at a loss. Since the mid-1990s, levels of unrest, sometimes involving violence, have been highest among the downsized workers of these companies. The smaller and less prosperous SOEs have lacked the resources to be able to cushion the blow of redundancy for workers, as well as often not being able to afford the necessary employer's stake that would enable their workers to participate in pilot social-insurance and pension projects, for example. They were more likely to be declared bankrupt or taken over by more successful firms at very short notice, often with no consultation with the workforce whatsoever, leading some to speak of East European-style 'shock treatment' (*China Labour Bulletin*, 1998a), as workers were disposed of without warning to find they had only very limited and patchy access to welfare provision to keep them from poverty. The lack of consultation or even information about these vital decisions seems to have been an important factor in prompting workers to take their protests to the streets around the plant, or to surround local government offices in an attempt to force the authorities into discussion. It has probably not helped that the usual mechanisms for consultation within the enterprise — the

workers' congress and the trade union, never particularly effective even in the pre-reform era — have been thoroughly undermined by the reforms' tendency to stress managerial prerogative above all else. In many cases, managers who have grown accustomed to exercising authority unchallenged do not merely neglect consultation with workers, but are actively hostile to the idea. It is noticeable, too, that areas that pushed ahead fastest with programmes of small- and medium-sized SOE bankruptcies, such as Sichuan province, experienced particularly frequent and widespread protests by the workers affected. Thus the policy, following the fifteenth CCP congress, of freely allowing SOE bankruptcies, mergers and takeovers was in many respects a recipe for increased labour unrest nationwide.

'Rights, not charity'

Even where SOE workers accepted the need for restructuring involving lay-offs, there was no acceptance that it should be carried out regardless of the impoverishment of workers who could not rely on regular receipt of benefits, pensions or emergency cost-of-living allowances from local government. Demonstrating the extent of the economic hardship caused by the lay-off policy, figures from the State Statistical Bureau indicate that 39 per cent of urban households experienced a drop in income during 1997, mainly because of the impact of lay-offs and unemployment. To the 15 million laid off in 1997, it was predicted that a further 11 million would be added by the end of 1998 (China Labour Bulletin, 1998b). Around 53 per cent of urban households below the official poverty line contained a member who had either been made redundant or who, although technically still employed, was not actually working and was thus receiving only a fraction of normal wages. In the mid-1990s, even those still employed and working normally could go unpaid for months at a time (Sheehan, 1996). It is important to remember, therefore, that workers were not simply complaining that a very comfortable economic position had become a little less comfortable: real hardship had been caused by the scale of the lay-offs, and notably so since the beginning of 1997. Former SOE workers felt the loss of their previous social and political status keenly, especially where the 'loyal pioneers of building socialism' (Schueller, 1997: 105) in the old heavy-industry heartland had been reduced to hawking goods on the city streets — the kind of work previously the preserve of poor migrants from the interior provinces. Besides this loss of face, the 'new poor' (*South China Morning Post*, 11 April 1997) of laid-off SOE workers had genuine

worries about finding money for family medical bills, children's schooling and even for putting food on the table, and for many this was the first time in their lives that they had experienced this level of insecurity (Wang Xiaodong, 1993).

Discontent and unrest in the last years of the 1990s reached such a level that an official response had to be made in order to head off outright rebellion. Well into 1997, official statements continued to emphasise the unfortunate necessity of throwing large numbers out of work, urging those affected to change their ideas about their entitlement to employment and the type of job they could expect (*South China Morning Post*, 19 September, 16 December 1997). Since then, more emphasis has been laid on making provision for unemployed workers in terms of benefits and re-training opportunities, and on offering emergency assistance to households who cannot make ends meet. However, some of the efforts of managers, the official trade unions and local government representatives to express sympathy and offer practical help to impoverished workers only provoked further anger among the recipients of these gestures. During the late-1990s, the presentation to workers of food parcels and cast-off clothing by the official All-China Federation of Trade Unions (ACFTU) was characterised as: 'a nauseating and clumsy combination of propaganda and alms-giving, increasingly resented by workers who feel that they deserve more than charity. The answer to unemployment is real training for real jobs, not charity from government ministers seeking photo opportunities in fleeting and stage-managed visits to the homes of the poor' (*China Labour Bulletin*, 1998c).

Besides televised aid visits to workers' homes (Schueller, 1997), other charitable gestures included pre-winter collections for needy workers with, for example, collection points for warm clothing, food and cash donations being set up outside a number of public buildings in Beijing in 1997, including outside the Ministry (now the Bureau) of the Metallurgical Industry (*South China Morning Post*, 21 October 1997).

Visits to workers' homes to offer aid to the needy have a long history in China, going back to the 1950s, but even then were viewed with suspicion by workers, who saw them as little more than a public-relations gesture that failed to solve the underlying problems they faced (Sheehan, 1998). They are even less well regarded by many workers now, as the democracy movement theme of the need for enforceable legal rights, rather than paternalistic benefits that can be bestowed or withheld at the whim of the authorities, has returned to prominence in the last few years. Again casting themselves as the main victims of reform, SOE workers

point to the sweeping changes made in China since the late-1970s, and increasingly express the view that measures such as the establishment of a non-enterprise-based welfare system and other legal protections for workers could and should have been possible as part of this wholesale restructuring of Chinese society and the economy. They reject the argument that there is no money to fund such projects, insisting that it is rather a question of the government's priorities.

It is certainly noticeable that during the reform era, the passing of laws offering some degree of protection for workers' interests, such as the Labour Law and the Enterprise Law, has lagged far behind the establishment of a centralised, disciplinarian and uncommunicative management style on the shop floor. While it is mostly the foreign-investment manufacturing operations around the Special Economic Zones that have become notorious for their harsh, almost militarised style of management and their abuse of workers' rights, SOE management has also been influenced to a certain extent in the same direction, with the work system featuring quota increases and speed-ups, longer working hours, new controls over labour attendance, and the use of monetary sanctions and penalties to control labour. This has been a trend since the early 1980s in areas like the south-east, which were pioneers of the urban reforms, so that the passing of the Labour Law in 1995, which asserted for the first time in law that workers were the true 'masters of the enterprise', could have little effect against such a well established trend of power being concentrated in top management's hands while workers felt themselves to have been reduced to the status of hired labour. In their demand for legal rights rather than paternalist gestures, restive workers are mirroring developments in oppositional political movements in China, and the legal line of argument is one that could prove extremely difficult for the government to deal with, given its own rhetoric on the importance to successful reform of the rule of law.

The impact of corruption

With reference to the 1989 democracy movement, Walder (1989: 34) noted that corruption and inflation then 'had the effect of politicizing workers' dissatisfaction' with the impact of economic reform. Almost two decades on, issues of corruption and unemployment are playing a similar role. Corruption is generally acknowledged to be widespread in China, with the government itself running high-profile national campaigns against graft and taking pains to publicise cases in which officials have been caught

and convicted of corruption offences. It is impossible to know how much corruption is occurring in the present phase of state-enterprise restructuring, but there is certainly considerable scope for it, since companies are merged, taken over or declared bankrupt in increasing numbers and assets disposed of at very short notice, with minimal public debate or information about the process. What is most striking, though, is that in decisions about the fate of their enterprises, corruption is now almost universally suspected by workers. Here again, an almost total lack of advance warning — let alone consultation — with the workforce before such decisions are announced only adds to suspicions that the decision-makers have something to hide. Corruption is also frequently suspected in cases in which factories are still in operation and goods are leaving the warehouse, but workers are told there is no money for wages, as in the following case from Hunan province in the late-1990s:

> At our factory, we went to the union because we haven't been paid for two months … The answer we got from the union guy was: 'Even the union funds haven't been paid, go and see the manager'. So we went to the boss and he said: 'The factory doesn't have any money at the moment. As soon as we have the cash, we will definitely pay the wages'. … These answers don't add up. We are still clocking on every day, production is going on as normal, and the warehouse certainly isn't crammed full with unsold goods. So how come there is no money? (*China Labour Bulletin*, 1998d)

In the economic climate of the present reform period, it is commonly speculated that goods leaving an SOE's warehouse are being dumped on the market at prices that earn the enterprise little or no profit. SOEs in the building materials, metallurgical, machinery, textiles and petrochemicals industries, among others, have been warned about such dumping by the government. It is also quite possible that in this and many other cases, any money which is coming in to the enterprise is needed to cover outstanding loans or other liabilities, and cannot be spared even for basic wages. But although workers accept indebtedness as a common reason for the closure of SOEs or the failure to pay wages, they tend to blame the extent of the debt itself on previous mismanagement and corruption at the top, still seeing management misconduct or incompetence as the root of the problem. While only a few documented cases of this type have been given prominence in the state-controlled media, there is a much more general and widespread tendency among the state-sector workforce to see

corruption and mismanagement as the main and most plausible explanations when the closure of an enterprise is announced or when wages go unpaid, and this only enhances the animosity already evident between managers and workers.

The CCP government's own statements about the dangers of corruption in the process of state-enterprise restructuring add credence to workers' suspicions. Decisions about the closure or merger of SOEs and the establishment of the share-holding system in SOEs have been identified as areas in which particular care must be taken to guard against corruption. Measures have been adopted to prevent the improper disposal by managers of SOE assets — something that was a major problem under the 'contract responsibility system' (CRS) in force across much of state-owned industry from the early 1980s until 1995 (Hassard & Sheehan, 1997). Under the subsequent 'modern enterprise system' (MES) reform programme, managers were explicitly charged with increasing or at least maintaining the value of state assets as part of their contracts of employment (Hassard et al., 2007). But during 1997, for example, the corrupt disposal of assets was highlighted as being the major factor in the bankruptcy of a textile factory in Shanxi, where 5,400 workers had gone unpaid for more than a year (*South China Morning Post*, 26 September 1997). Workers frequently refer to managers' having enriched themselves through the illicit disposal of state assets at a time when their own wages were being paid irregularly or not at all. Workers suggest that managers were able to leave SOEs to their fates and move on unscathed to another post, seeing this as a universal pattern. Again, official warnings and measures taken to guard against this type of action tend to be taken by workers as confirmation of the scale of the problem. The asset-disposal form of corruption acts as a politicising factor in workers' discontent in a specific way: it helps to reinforce the impression among many workers that SOE managers are in effect the 'owners' of the enterprise, or at least that they can behave as if they were. Thus an element of class-based animosity enters into workers' attitudes to enterprise restructuring, adding to the politicising effect of the whole issue of official corruption.

Labour representation under state capitalism

Issues of redundancy, redeployment, rights and graft provide much of the context for tensions in the relationship between the CCP and urban industrial workers, and notably also provide context for the way the CCP has responded to labour pressure for better

industrial and political representation since the late-1980s. These are essentially tensions between state capitalism and state corporatism. The Chinese government has shown particular concern over attempts to form independent labour organisations in this period, seeking instead to contain an increasingly restive working class, now subject to a high level of employment insecurity, within the framework of state-controlled unionism. Thus the CCP's relaxation of centralised control over a more open, 'mixed' economy has not been matched in the area of labour representation by a greater tolerance of autonomous organisation, leading to intensifying conflict with labour, particularly in economically disadvantaged areas of the country.

Elements of this scenario perhaps reflect the third of the perspectives on state capitalism identified by Pollard (2003) in his paper on the Communist Party of the Philippines, namely the 'libertarian Marxian' perspective. The three main premises of this perspective are: that the means of social production is held privately from the working classes and those who depend on them for survival; that there is no empirical evidence that these people control the organisations controlling the ruling Communist Party; and that the top Party leadership gets its wealth and power like a more ruthless and collective capitalist class, extracting surplus value produced by the labour power of the politically impotent working classes. This is a perspective on the relationship between the Chinese Communist Party government and workers in the People's Republic of China that had begun to be articulated by workers themselves at points of crisis in that relationship as early as the 1950s. During the Cultural Revolution (1966–1976), the idea of the CCP as a new, exploitative ruling class extracting surplus value from the working classes and passing on its privileges to its descendants became a commonplace one among the more radical participants in the movement, and it was an idea that many of them carried over into the first stirrings of China's democracy movement in the late-1970s and early 1980s. The inspiration of Poland's Solidarity movement only gave extra impetus to an existing mood among activists that Chinese labour, if it ever could have regarded the CCP and the party's subordinate institutions as representing its own interests, was now in obvious need of independent organisations with which to defend those interests within the workplace and in society. The official trade unions — those affiliated to the All-China Federation of Trade Unions (ACFTU) — had proven wholly inadequate defenders of labour's interests at any point in which those interests came into conflict with those of the state. In a state-corporatist model, the official unions have been

the only organisation in China permitted to represent workers' collective interests and grievances to state authorities. The unions' 'transmission belt' function between labour and the state is supposed to work in both directions, but historically in the PRC it has mainly operated in top-down way, as a means of imposing state preferences onto workers.

Since the early 1990s, the Chinese state has faced a number of conflicting priorities regarding the relationships between itself, labour, and the official trade unions. In the aftermath of the 1989 protests, the official unions were punished for the support they had offered to the movement — support given publicly in the form of a financial contribution, but by some accounts also more significantly in their backing of a proposed general strike in mid-May 1989 (Wang Shaoguang, 1993). A number of leading figures in the ACFTU were purged, and the official unions at all levels were encouraged to lead the condemnation of the 'illegal' independent labour organisations formed during the movement. Yet the official unions still had an important role to play as a 'transmission belt' between labour and the state, and this role grew in importance as the state increasingly withdrew from direct involvement in management at the enterprise level (Zhang, 1997). This separation of government and management functions was a key aim of the 'modern enterprise system' and 'group company system' reform programmes that had been ongoing in state-owned industry since 1994. As noted, the other key feature of SOE reform since 1997 has been a programme of unprecedented large-scale lay-offs involving up to 50 per cent of the workforces of some large SOEs; and here, too, the assistance of the official unions and the workers' congress has been important in the preparatory work carried out within enterprises to engender minimal acceptance, if not enthusiasm, among the workforce of the necessity of shedding labour for the sake of the company's future.

Since China's accession to the WTO, it has also become more important for China's official unions to be recognised internationally as legitimate representatives of the interests of Chinese labour. This seems to have been one of the main motives behind the October 2001 revision of the Trade Union Law. The revised Law contained provisions that potentially offered workers in China more control over their unions and more scope to use the union's legal rights to defend their own interests, although much of this was undermined by an overarching insistence on the ACFTU's political subordination to the CCP, and on its key responsibility for economic development rather than for representing the interests of labour (*China Labour Bulletin*, 2002). It appears to have been sufficient to win back the ACFTU's position on the governing body

of the International Labour Organization, which the official unions had lost in 1989 because of their acquiescence in the suppression of the democracy movement protests (Chen, 2002). These developments were also possibly a response to pressure from within China's official unions for greater autonomy to defend members' interests in an era of general intensification of the labour process, a punitive style of management, and the ever-present threat of unemployment. Indeed, some within the ACFTU appear to recognise that this is the only way the official unions will ever be able to undercut the growing appeal of independent unions in China.

The overriding priority of the CCP government since the late-1990s, however, has been the maintenance of what it usually terms 'social stability'; that is, the avoidance of widespread and serious unrest such as might threaten the government's hold on power. We can comment on how this basic concern has affected the implementation of other policy priorities if we look at the way the programme of lay-offs in large SOEs has progressed since 1997. Initially, the government's statements on the issue stressed that the short-term pain of the process for those who lost their jobs was a price that must be paid for the longer-term viability of the companies concerned, particularly since once China had joined the WTO, those companies would soon be subject to the full rigours of international competition. A change in attitude was perceptible by early 1998, however, as far more attention was given to aiding laid-off workers and their families financially, and to expressing sympathy for their predicament. Moreover, many SOEs revised their plans to complete lay-offs by the end of December 2000, allowing themselves another three years to finish the process. One reason for this apparent change of heart was the impact of the 1997 regional financial crisis, which put many SOEs in economic difficulties as they faced increased competition from countries that had devalued their currencies. But the main reason was the upsurge in labour unrest, strikes and protests sparked by the redundancy programme. The incidents that gained the most press attention (and it must be assumed that many incidents go entirely unreported, given the restrictions under which Chinese and overseas journalists operate within the PRC) most often involved the workforces of smaller SOEs that had been left to sink or swim on their own after September 1997. Many small SOEs had either failed to pay workers for months at a time, or had closed down or been sold off very abruptly in a way that suggested corrupt dealings to the workers who had lost their jobs. But larger SOEs, including some of the best-known in China, were certainly not

immune from unrest: they also responded to increased government pressure to maintain stability by adopting an even more cautious and gradualist approach to lay-offs, hence the three-year extension of their original deadlines for shedding surplus labour.

This, then, became the dilemma for the Chinese state: it wished to withdraw from enterprise management almost completely and leave managers in charge of most decisions, yet it also wished to influence and shape the transformation of its remaining SOEs into internationally-competitive corporations that would function solely as economic entities, not as providers of welfare benefits and full employment as a social good, which was the role of SOEs in the Mao era. The effects of reform, however, came to convince more and more workers of the necessity of having an independent union organisation under their democratic control. Such a form of organisation would function to defend their interests against the demands imposed by an increasingly assertive new managerial elite. While the state refuses to follow the logic of the diversification of Chinese society in the reform period and permit any labour organisation with a significant degree of autonomy from government, the stage is set for increasingly sharp and frequent confrontations between the state and labour.

The extent to which the state really has withdrawn from management in China's remaining SOEs varies from enterprise to enterprise. In general terms, autonomy has been most fully realised in areas in which reform has progressed the furthest, typically the eastern seaboard and areas such as Shanghai and Guangdong province. In the interior, however, a real shift in authority in SOEs is still more potential than actual. As noted, the area in which state interference is most often reported is in questions of employment and the divesting of surplus labour. A number of large SOEs that have pioneered the MES reform programme have been compelled by local authorities to take over loss-making enterprises, not in order to reform them and return them to profit, but solely in order to guarantee the wages and pension payments owed to those companies' employees. This directly contradicts the general line of MES reform, which is to reduce as far as possible the social and historical obstacles to large SOEs' international competitiveness, namely a high proportion of surplus labour and the obligation to act as a welfare state in miniature for employees. But this has occurred even in areas in which, in general, the aims of reform in freeing management to manage without state interference have to a large extent been achieved.

SOE management, despite the setting of apparently firm and final deadlines by which large-scale lay-offs must be completed, is

also fudging the issue of redundancies, partly as a result of government pressure to avoid provoking protests, but also because of a persistent thread in managers' attitudes of paternalist concern for workers' fate once laid-off, and a Mao-era distaste for the disposing of surplus labour as if it were just another asset of the enterprise. We have noted how the enterprise restructuring and the proliferation of sub-companies that has also taken place under the MES reform programme has enabled large SOEs to transfer large numbers of workers to autonomous sub-companies, many of which have been set up solely or mainly for the purpose of absorbing surplus labour.

Once this has been done, the parent company is able to report a 'headline' reduction in its workforce which appears to show that the targets for getting rid of surplus labour are being met, although in fact it will still, in the last resort, be responsible for meeting the wages of the workers transferred into a sub-company. As such, the surplus-labour burden remains and is deemed to be a major obstacle to SOE profitability, productivity improvements and international competitiveness.

In general, the Chinese state is still reluctant to abandon its state-corporatist approach to the representation of interests in a rapidly diversifying society and permit truly autonomous representation of the interests of groups such as labour. It has been observed that the CCP has taken a cautious approach in dealing with actual instances of unrest, attempting to avoid bloodshed in confrontations between the security forces and protesting workers as far as possible. But the state's perception that independent labour organisations are an intolerable threat to its prerogatives can be seen in its treatment of the leaders of such protests (such as the Liaoyang Four: *China Labour Bulletin*, 2002–3, *passim*), where it has resorted to accusations of terrorist tactics as well as long prison sentences in order to discredit and contain those who have attempted to set up independent organisations, even acting against them outside China's own borders on occasion.

This situation also leaves large SOEs unable to carry through the reforms that are supposed to enable them to compete on the world stage now that WTO membership requires them to do so, and to date there are no signs that the new leadership of the CCP is any better equipped to resolve this dilemma of reform than were the previous generation of leaders under Jiang Zemin. Labour's predicament in China following nearly thirty years of reform will continue to generate protest and attempts at independent organisation, and measured repression is unlikely to represent a viable solution in the longer term.

Conclusions

The scale and conduct of the present round of SOE workforce reductions has brought about an increased incidence of unrest, strikes and other protests among the workers affected. From the mid-1990s onwards, protests became so common in some areas of China that a Politburo Standing Committee member was reported to have returned from a tour of the provinces complaining that he had frequently been unable to use the main entrance to local government buildings because of 'the almost daily occurrences of jobless workers and destitute pensioners laying siege to the headquarters of provincial and municipal administrations' (*China Labour Bulletin*, 1998e). Over the last decade, the level of unrest has become so significant that it has hindered the implementation of other major reform measures, such as an end to subsidised housing. In recent years, the CCP leadership has taken the trend of frequent labour unrest very seriously, recently rating it the third most worrying threat to stability in China (after the activities of separatists in the Muslim northwest of the country and the Tibetan independence movement), with the formation of independent workers' organisations cited as a particular cause for concern. Although concerned senior managers at some large SOEs slightly extended their deadlines for achieving workforce reductions so as not to aggravate the situation further, small and medium SOEs tended to press ahead regardless.

The use of service sub-companies to absorb unemployed SOE workers has been successful up to a point, but many of these companies have also been reported to be losing money themselves, and there are concerns about market saturation. Thus this major method of dealing with potentially restive surplus labour appears problematic as a sustainable solution to the problem. Neither is the diversion of redundant SOE workers into self-employment without difficulties. It is striking how often in recent reported instances of unrest, including many in which violent clashes with police are alleged to have occurred, taxi and pedicab drivers have been involved, many of whom are former SOE employees. Some municipal governments developed a policy of reserving a certain proportion of the restricted number of taxi licenses for laid-off SOE workers, but street protests have occurred when attempts have been made to tighten up licensing procedures, or to increase the fees payable by drivers to the local authorities. The SOE backgrounds of these drivers seem a plausible explanation for their very frequent resort to street protests. Already among the obvious

losers in the reform process, they do not take kindly to any further official action that makes it more difficult for them to earn a living.

It is all the more troubling for the CCP government that SOE workers' protests are increasingly both politicised and organised. The belief that independent unions are the only means by which workers' interests can be protected in the new, insecure environment brought about by reform is now more widely held among workers than at any time since 1949. In addition to efforts to form autonomous organisations or to propagate the idea of doing so, a number of workers have also attempted to stand as candidates in local people's congress elections on a platform of workers' rights and/or of calling for proper, legally-guaranteed provision for laid-off workers. These local elections have repeatedly served as a focal point for unrest and pressure for political reform in China during the post-Mao period. Perhaps the most notable instance was in the autumn of 1980, when many worker-activists involved in the Democracy Wall movement stood or attempted to stand for election as a way of publicising their views and highlighting the gulf between the citizens' rights laid down in the Chinese constitution, and local authorities' actual response to any challenge from outside the party establishment (Sheehan, 1998). This type of legal or constitutional challenge to the CCP government is much more difficult for the authorities to deal with than a disruptive street protest, which can be categorised as selfish and misguided trouble-making. It also poses the threat of a link between restive workers and other oppositional political movements in the PRC, which are increasingly resorting to the same legalistic tactics.

As well as calls for and attempts to organise independent unions, there have also been moves by workers towards the formation of independent watchdog organisations to monitor and combat official corruption, and sometimes the same activists have been involved in both independent union-organising and anti-corruption groups. Official corruption is routinely spoken of wherever SOEs are failing to pay wages or being closed down, and workers' allegations about the privileged, secure and luxurious lifestyles of corrupt managers and officials bear a striking resemblance to similar accusations made by worker-activists during the 1978–81 Democracy Wall movement and the 1989 democracy movement. The politicising role of corruption-related grievances even extends to the inadequate provision of welfare for laid-off workers, with official warnings against the misappropriation of funds intended for the unemployed giving credence to protesting workers' suspicions that money intended for them is being improperly diverted. Again, precedents

can be found for this type of suspected corruption as a trigger for labour protest going back to the 1950s.

Most incidents of protest and self-organisation by Chinese workers can still be described as local, sporadic and short-lived, albeit increasingly common. The police have tended to move swiftly against anyone involved in what might develop into an illegal organisation, and since independent trade unions are never allowed to register with the local authorities (such registration being a requirement of all organisations in China) they are all de facto illegal. But the corruption issue and the emergence of class-based animosity towards the managerial 'owners' of SOEs give an important and explicitly political dimension to the general discontent evident among present and former SOE employees. As more join the ranks of the unemployed, it is very likely that the activists who are pushing the cause of independent unions most strongly will find a large and ready audience for their views, creating the potential for another serious crisis in the CCP government's troubled relationship with the industrial workforce.

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Note

1. Following pilot visits during 1995 and 1996, field data used in this paper has been collected on a regular, mostly yearly, basis since 1997. In the main, our information is derived from a series of sixty-three semi-structured interviews. Primarily, eight large steel SOEs carrying out corporate restructuring have been consulted, most on a recurrent, two-year cycle basis.