On December 11, 2001, China formally joined the World Trade Organization, a cause for rejoicing for the Chinese – and for us as well, we were told. Indeed, ever since the U.S. and the People's Republic signed their bilateral agreement in November 2001, the publicity in both nations was almost nothing but positive, with much of the informed population in both places quite satisfied. China, it appeared, was set to become much more modern and prosperous. At the same time, American products were to enter China free of most of the barriers set up against them in the past, and American investors would no longer have to suffer discriminatory restrictions and requirements once they received the mandatory national treatment in sales, purchasing, distribution, transport, and use that China's WTO demanded. The news media – especially when quoting the negotiators on both sides – told us repeatedly that what was achieved was a “win-win” deal.

But this so rosy picture turned much more bleak when the plight of the former state-employed workforce was surveyed. Beginning in the mid-1990s, the Chinese government enforced a policy of cutting back the workforce in a chase after efficiency. In addition, as an unemployed informant told me, “A lot of factories have gone bankrupt because people prefer foreign-made electronics.” So it appeared that the “win-win” scenario could be supported only if a large portion of the 45 to 60 million laborers who had, by late 2001 already been “laid-off” in the previous half decade or so, along with the millions likely to follow, were to be simply discounted altogether.

Along with the dependents of those already unemployed, amounting to about another 100 million or so, this could mean that somewhere between a sixth to a fourth of the urban workforce (about 300 million people) and over a third of the urban population (400 to 450 million people, depending on how counting is done) were being ignored in the positive assessments. These once formal workers are overwhelmingly over age 35, unskilled, and, because they came of age during the Cultural Revolution – and so were deprived of an education past junior high – have been characterized as having a “low cultural level.” Moreover, even of those still nominally at work, some 70 percent were said to be owed wages, pensions, and compensation for medical expenses as their firms sank deeply into debt. With WTO entry and the heightened international competition it brings, it seemed probable that many firms would just disappear.

So, with new international competition, plus the structural adjustments, deindustrialization, and economic system transition that were to come in its wake, the numbers of adversely affected people were sure to mount. At the time of entry the investment firm Salomon, Barney, & Smith predicted that as many as 40 millions were apt to be thrown out of work within the first five years of China’s entry (of whom 10 million could be former peasants). If, as some projections from within China held, the WTO connection could bring about .5 or .6 extra percentage points of gross domestic
product growth per year, about 350,000 jobs could be created per annum—providing the economy can continue to churn out new positions at the same rate that it did in the early 1990s.\(^1\) Alternatively, some claimed that there could be a growth of 500,000 new jobs in labor-intensive exports per year, or five million in ten years.

If these reckonings were right, while 40 million jobs were to be lost, only 1.4 to 2.5 million would be added in the first five years. Granted, projections did vary, ranging from estimates of gains of a mere 10,000 to as many as 12 million new jobs per year to an appraisal that there could instead be a net decrease amounting to a quarter of the present jobs. Some also calculated that entry into the WTO could drive economic growth up an additional three percentage points a year, provided that China’s exports remained high. But this estimate preceded September 11 and its impact; whereas exports grew 23 percent in 2000, a recent figure for 2001 is a growth of only 14 percent, highlighting the vulnerability and unpredictability lent by the global market to those enmeshed within it. Overall, observers admitted, entering the WTO was definitely to affect China’s agriculture and manufacturing negatively, and these were the very sectors prior to entry that housed some 80 percent of the labor force.

Undergirding these predictions and, one might say, making light of them, was a set of assumptions informing popular discourse on the U.S.-China trade deal that I proceed to examine and undercut. I conclude with some speculations and suggestions as to why, nearly two and a half years on, it seems things haven’t turned out to be quite as dire as I once thought.

A Few Assumptions About the Impact of WTO on Chinese Labor – and their Flaws

Here, now, are a few of the principal optimistic assertions about how WTO entry would benefit China that my research— which has included interviews with city officials and dozens of unemployed people in China over a period of five years, plus stacks of Chinese journal articles.

Challenges:

- **No. One:** "More jobs will be gained than lost."

  According to China’s Ministry of Labor and Social Security, labor supply was, even at the time of entry, greater than demand in the cities by more than 30 percent. True, there will surely be many new jobs created after China enters the WTO. Trade growth, industrial adjustment, and upgrading will lead to new employment posts, as will new foreign investment.

  As trade barriers fall and as foreign firms find it much more convenient to invest in China, however, they—as domestic firms in China already are—will be prone either to

\(^1\) At that time, one percentage point of economic growth could produce \(600,000\) jobs.
hire young, well educated workers for their skills, good health, and general know-how and energy, or else to engage peasant migrants, for their willingness to serve as drudges for very low wages. So those getting new jobs – whether in banking, insurance, telecommunications and hi-tech, or in assembly-line plants – will not be the workers who have lost their posts.

- **No. 2:** “The assault will be just short term; the problems will all be solved in the longer term.”

This statement can only be accurate from the macro, aggregate perspective of the economy as a whole. If we consider the fate of the laid-off workforce, the prognosis is certainly poor not just in the near future, but over the long-term too. As a trade union official told me, “It’s very hard to get employers to hire people over age 35.”

Recent investigations in China demonstrate that under 20 percent of the discharged workers, for whatever reason, have not received any job training; that the reemployment rate for the laid-off has dropped from 50 percent a few years ago to just nine percent later on; and that the average per capita income of the furloughed had fallen to about half the national urban average after losing their jobs, while only 21 million – certainly less than half even of the officially designated furloughed, not to mention millions of others whose firms have crashed that the regime does not count – had been allowed to register for governmental reemployment programs as of the end of the year 2000. Those attempting to start a small business venture typically find themselves denied bank credit and harassed by petty officials.

Even as early as mid-1998 an academic survey done in China showed that half of those laid-off had been so for over a year, a sixth for more than three years. As an official magazine noted, these people are destined to compose a “long-term, unstable mass;” a researcher in the Chinese Academy of Social Sciences recently reported that, they will “just be excluded and drift downward.”

This kind of prediction has echoes in the words of social critic He Qinglian, who recently conjectured darkly that if out-of-work parents cannot afford to educate their children society, they would be faced with poverty, becoming “an intergenerational inheritance.” In Anhui province, high tuition costs at all levels were already by the late 1990’s beginning to mean that “the number of farmers’ and laid-off urban workers’ children who leave school is rising year by year.” Similarily, a study of over 28,000 children in an urban district of Shijiazhuang, Hebei, found that 30 per cent had laid-off parents and that, because their parents had been laid off, 11 per cent of all secondary school students and 1.4 per cent of primary school students there, as of 1998, were preparing to quit school.

- **No. Three:** “Chinese consumers will benefit from more choice and from cheaper foreign goods.”
The rising middle class and, of course, the wealthy, will obviously reap these benefits. But for the laid-off and the indigent and to-be-laid off, this one can be quickly dispensed with in the savvy speech of two of my urban Chinese interviewees who had been thrown out of work: as of late 2001. According to one of them, a woman forced to retire in her early forties, “If cars are cheap, so what? We can’t afford it. As for color TVs, we already have one.” Asked about her view of the WTO, she replied: “It won’t be good for us. We don’t understand it too well. We can’t see any good points for us ordinary people. The unemployed will be even more. We’re pretty apathetic about this. We just don’t care.”

And, “WTO is good for the rich. It’s not all commodities that are going to get cheaper, just high-class stuff like cars. We can’t afford those things,” the other, a man of 35 years, quipped. He went on to muse, “People like us doing bitter labor will just increase; for us ordinary folk, us poor people, WTO doesn’t have any good points. What it’s all about, we don’t much understand.”

- **No. Four: “Export-oriented sectors, such as textiles, will benefit.”**

  It is accurate to separate industrial sectors into winners and losers – up to a point. Yes, it’s the case that labor-intensive export industries, such as toys, clothing, shoes, and textiles should find more open markets abroad with time. But this does not necessarily translate into opportunities for those who have and will be dismissed from the plants of the past – the 100s of 1,000s of former pharmaceutical, machinery, automobile, chemical industry and steel manufacturing workers. On top of layoffs that already occurred, Chinese analysts have written that over 100 automobile factories “can’t go on” once China enters the trade organization.

  Especially among textile workers, supposedly members of a winning sector, millions of mill hands were already let go with the intentional destruction of over nine million out-of-date spindles as of the end of 1999; in one major industrial inland city, Wuhan, of the more than 100 state-owned textile firms that existed in the 1980s, not one remains today. In their place are some joint ventures, whose owners, after investing, demanded the release of large numbers of former employees; others have simply collapsed, unable to bear up under competitive pressures. Except for a few major bases along the eastern coast, much of the textile technology in China is obsolete, the equipment decades old, the varieties too plain and unmarketable, and the mill workers too undereducated to suit the demands of modern industry. And, according to an essay by a top trade union researcher, export processing in general by now is limited by market saturation, the intensification of competition, and the entry of laborsaving technology.

- **No. Five: “The tertiary (service) sector and the privately-owned enterprises will provide places for the unemployed.”**
Unfortunately for those whose jobs have disappeared, the tertiary, or service, sector has two distinct components, which are generally conflated in official commentaries. Governmental accounts routinely underline that under a third of the positions in the labor market are currently ones in the service economy and, thus, that expansion potential here is vast. True enough, there is or soon will be demand for the services that big business and the middle class and well-to-do demand, such as insurance and banking. But there is really no market left in this sphere to which unskilled labor can appeal.

Indeed, this emerging market lacks true demand-driven economic activity, at least insofar as the work done by the furloughed is concerned. This is because, given the immense proportions of the official program of enforced dismissals, plus the unspecialized nature of the labor the affected workers have to offer, there simply cannot be demand sufficient to absorb the millions made redundant, now struggling to find takers for their wares and their services.

A principal thrust in the past two years – urging the laid-off to perform community service – is also floundering. Of about two million temporary posts in this sector uncovered in a recent four-city sample survey, for instance, more than half remain unfilled. Among the reasons given in an official journal are lack of training, absence of intermediaries to connect potential job holders with employers, preferential policies not made good, and a disinclination among the furloughed to do such petty labor as minding the sick, chaperoning children home from school, or sweeping the streets.

Is The WTO The Cause?

Granted, before pursuing this line of thinking further, I need to make a few caveats as to why WTO may not be the cause of all the problems surrounding its impact upon the Chinese labor market. First of all, we must bear in mind that the choice to join the WTO belonged entirely to the Chinese leadership and was not forced upon it. Because of widespread international norms endorsing productivity, efficiency, and industrial competitiveness; for the prestige of “joining the world;” for heightened legitimacy at home (particularly among the rising middle and upper classes); in the hope of rising domestic living standards through increased trade; and for the chance to become a participant in writing the rules of the global trade regime, a set of politicians at the top of the political hierarchy in China chose to go along this route. So one might say that these leaders’ goals and not the WTO itself are the cause of the problems I’ve been discussing.

Secondly, China began implementing a range of trade adjustments long before entry – reforms such as reducing tariffs, eliminating import licenses, and removing import quotas – over a period now stretching back about 20 years. So entering WTO did not compel these moves. On the other hand, many of these practices were undertaken expressly in order to pave the way to entry.
And third, the problems of job loss are also a response to long-standing issues in China, such as firm deficits, lack of competitiveness, and inefficiency. But the truth here is that losses did not become an important issue until China began its journey on the road to marketization and trade openness.

Still, we need to ask whether China’s accession has indeed proven to be as dangerous to labor, as it once appeared it would be.

Some Speculations as to Why the Outcome to Date Has been Less Dire than Expected

Indeed, I must admit that it does seem at this point that no heightened disaster of unemployment has eventuated to date in China’s labor market as an after-effect of the country having become a member of the World Trade Organization. I submit three explanations for this medium-term outcome.

In the first place, there has definitely been a measure of non-compliance, at both the central and local government levels (sometimes it’s difficult to assess just where the obstruction lies). We do know that some ministries at the central governmental level were never admitted into the decision-making councils when the government opted and then negotiated to join the WTO. These ministries, tending to industrial sectors that would be disadvantaged by imports, were intentionally excluded because of the obstructionism that they were expected to cause. Consequently it should not be surprising that either they or their lower-echelon operational branches would be reluctant to carry out provisions now to which they had never agreed.

This obstructivism appears in a continuing lack of transparency, blockage of imports, barriers to entry, access problems, delays, imposition of phytosanitary and cumbersome inspection provisions, complaints against genetically modified crops, ongoing subsidies to domestic textiles, steel, petrochemicals, and machinery, as well as for agricultural exports in defiance of the agreements China made, advantages for foreign firms using local content in producing automobiles, discouragement to the importation of car parts, preservation of high duties on products that compete with domestic industries, inappropriate custom fees for products such as motorcycles and video equipment that could be undercut by imports, licensing hassles for imports, over 100 new standards for food products, and various measures to retain priority for local firms in taxation and other policies or to provide VAT exemptions and rebates for Chinese products.

Just to illustrate the thinking behind such behavior, we need to realize that the Chinese government is well aware that every increase of $100 million in imported agricultural products means a loss of 200,000 rural jobs. Or, we should be aware that soybeans, whose import has been especially problematic, are the chief crop in China’s northeast, the very region that has suffered the most urban industrial unemployment nationwide. The authorities there are understandably anxious to avoid having to see suddenly jobless farmers streaming into the already stagnant urban economies. In addition, local governments are often ill equipped to install and adhere to all the new regulations imposed upon them.

A second factor moderating the outcomes from joining the WTO is that the Chinese government has altered its role in the domestic economy over the past few years. There has been a heightened emphasis on domestic demand, as the government realizes it
must hedge its bets and not become reliant solely upon the stimulation and business of
the global market and foreign investors, a consciousness honed in the wake of the 1998 to
1999 financial crisis when China saw its economy badly – even if briefly – hit, in terms
of both imports and investment. The regime has also engaged in an expanded level of
interventionism, helping to build up joint ventures in automobiles and creating industrial
policies, endowed with preferential policies and development targets for prime sectors.
There has also been since 1998 a series of expansionary fiscal policies and infrastructural
construction projects, with much state investment to back them up, leading to the
installation of vast roadways, bridges, airports, and the like. All of this has offered new
job opportunities for those prepared to do this sort of work. And lastly but very
importantly, the government is putting ever-increasing funding into welfare programs,
including training programs for reemployment, an incipient social security program, and
ever-growing sums to cover ever more people needing a minimum living allowance that
is available for the urban indigent.

And, finally, it is nearly impossible for anyone – an outsider, a Chinese
employment official, or even the central government – to grasp the contours of China’s
true employment picture today. This is the case because of the fragmentary, patchwork,
and ultimately unknowable state of the country’s employment statistical data. I have
written on this elsewhere, and would be happy to provide the citation for those interested.