



THE CHALLENGE OF **CHINA**

– trade union and industrial perspectives

Dedicated to:
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International Secretary of
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1953–2005

Forewords

While the Chinese economy is booming, the political development is very slow in the country. Democracy is not on the agenda for the Chinese leaders, at least not in the immediate future, and the scope for the development of independent trade unions seems non-existent.

At the same time, serious infringements of human rights are occurring on a daily basis. Not only through the prohibition to organise in independent trade unions, but it also applies work-related rights such as the right to decent wages and working-hours as well as a safe working environment.

With this report, Svenska Metall would like to contribute to the ongoing discussion within the international trade union movement, on how to react to the economic and political development in China.

Stockholm, august 2005

Lars Johnsson

International Secretary of Svenska Metall

Right now, everyone is talking about China. That is perhaps not strange in view of the rapid development that is taking place there – few countries have gained so much from globalisation as China.

For the Swedish Metalworkers' Union, Svenska Metall, there are a number of factors making it interesting to follow developments in China. From an industrial perspective economic development in China means a real challenge to the traditional industrialised countries in the West. Long a country primarily characterised as a place of labour-intensive production with a low level of technical content, China is now making rapid advances in many other sectors. Sweden and the rest of the industrialised world can no longer count on having a monopoly on advanced products with high added value. China's evident ambition to catch up creates an adaptation problem for Sweden among other countries, but also gives rise to major opportunities.

From the trade union perspective there is room for both anxiety about the consequences for jobs in Sweden and cautious optimism as regards the situation for Chinese workers. In the present situation their rights are infringed daily – not least because of the absence of independent trade unions.

Since the beginning of the 1990s the flow of Swedish investments in China has accelerated. Swedish companies employ more than 30,000 people in China. In order to obtain an insight, however incomplete, into the situation of those employed in the Swedish enterprises, Svenska Metall conducts continuing exchanges with the local trade unions, despite the fact that in all essentials they are controlled by the Chinese Communist Party. In parallel, we exchange information with the ACFTU, the central trade union organisation. Our hope is that these contacts will prove one of a number of ways which can contribute to influencing the system from within, in a democratic direction.

This report has been written by Josefine Larsson, at the Research Department of Svenska Metall.

Stockholm, April 2005

Ola Asplund
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Index

Forewords	2–3
Introduction	7
The Chinese economy – dominant in world history	11
The middle kingdom	11
Mao Zedong	12
China after 1976 – economic openness	13
The second Great Leap Forward...	14
External trade	15
China today	21
Social conditions	21
Human rights	26
The labour market/employment	27
Working conditions and trade union rights	33
Trade unions in China	36
Swedish enterprises in China	45
Why manufacture in China?	48
Advantages and disadvantages of production in China	54
The China of the future	63
Xiaokang – the new political vision	63
Political openness?	64
Will economic growth continue? Some risk factors	68
Svenska Metall and developments in China	75
Contacts with the ACFTU and other unions	75
Other ways to influence the conditions of Chinese workers	76
The challenge of China – some conclusions and reflections...	79
The industrial perspective...	80
...and the trade union perspective	85
Selected articles and publications	87

Introduction

A visit to Shanghai is a fascinating experience – there you can see the much discussed Chinese economic growth with your own eyes. You can almost hear the city growing; almost all buildings are new and have yet to acquire the grey coating of dirt and exhaust-gas pollution to be seen in most other major cities. The absolute majority of all tall buildings, motorways, development zones and industrial areas have been constructed in the last 10 years. At the beginning of the 1990s one fifth of all the cranes in the world were to be found in Shanghai and during the last 10 years more than 4,000 skyscrapers have been built there – an average of more than one a day.

There are few countries, which have gained so much from globalisation as has China. 20 years ago, there was hardly anyone who could foresee how important China was to become for the world economy today. Economic development is taking place at a headlong rate and it is not easy for outsiders to obtain an overall view of what is going on, still less to reach sure conclusions about the importance this will have for the rest of the world. Since the end of the 1970s China has experienced one of the most thoroughgoing economic transformations in world history. According to official statistics, between 1978 and 2002 the economy grew by an average of 11 percent a year. During that period more than 200 million people were raised out of poverty.

The generation behind all this are now in their forties. They are the generation born after the Cultural Revolution, who have been brought up to believe that everything is possible if only one struggles sufficiently hard. The whole of China's modern development has taken place during their lifetime. By contrast with those who grew up during the Cultural Revolution, a generation today regarded as "lost", they have had access to education and opportunities to travel abroad. For the successful among them, the standard of living has markedly increased during these 25 years.

This Chinese growth is, however, concentrated in the coastal areas

Introduction

of eastern and southern China. The rest of this gigantic country consists mostly of poor rural villages. Millions of Chinese still live in poverty and the gap between those who are gaining from economic developments and those who scarcely notice them is increasing. Most observers are, however, agreed that even if the rich become ever richer, the poor are not becoming poorer. The majority of the population have enjoyed somewhat improved living standards in the last 25 years, even if for most of them these improvements are only marginal.

Political development on the other hand is slow. Democracy is not on the agenda for the Chinese leaders, at any rate not in the immediate future, and the scope for the development of independent trade unions in the foreseeable future seems non-existent.

It has to be said clearly that China is a dictatorship with all the characteristics of dictatorship. That does not, however, mean that there is no path towards the political development of greater liberty in China. Economic development carries with it, among other things, a broader interface of contacts with the outside world, something which is of increasing significance for internal political and social developments.

The question is what importance developments in China have for Sweden and the rest of the industrialised world. Almost every week brings reports of companies deserting Sweden in order to exploit the new growth markets and cheap labour in China and other countries in Asia. How can we compete with industrial wages at only 5 percent of the Swedish level? To what extent does development in China imply a threat to industrial production in Sweden and to what extent does it offer opportunities? It cannot be ignored that 1.3 billion Chinese are a big potential market for our goods and services.

From the trade union perspective we regard developments in China with a mixture of fear and confidence. On the positive side

is the fact that huge numbers of Chinese are now better off and that the growing Chinese market means an enormous potential for Swedish companies and hence opportunities for more jobs. At the same time it is difficult not to feel anxiety about the fact that more Swedish companies are choosing to transfer production to China and other low-wage countries. To begin with it was comparatively simple components which were manufactured in low-wage countries but now we see how increasingly advanced products can be manufactured in China just as well as in the traditional industrialised countries. That means that various other functions closely connected with production will also be transferred. The fact that the traditional trade union tools for counteracting wage-dumping are difficult to apply in a country where independent trade unions are forbidden naturally only increases our anxiety.

The present report has two purposes. The first is to give a picture of "the miracle of growth" that is China - what is really happening there and what is the reality of life for Chinese workers?

The second is to investigate the views of Swedish companies about the Chinese market, both today and in future. What are the motives for production in China, and what advantages and disadvantages are perceived? What future strategies do these enterprises have?

In this report there is also a discussion of possible future scenarios as regards both economic and political developments in China and Sweden's future as a producer. We also discuss Svenska Metall's views about contacts with, respectively, the official Chinese trade union movement and other potential trade union movements.



The Chinese economy – dominant in world history

The Middle Kingdom

Throughout history the Chinese economy has dominated the world economy. Its share of the global economy has since the beginning of our own era been as high as 22–33 percent.¹ But China's history goes back further than that. The philosopher Confucius, whose ideas are still of great importance for Chinese culture and society, lived as far back as 500 BC. The Ch'in Emperor, Shih Huang-ti, founded the first centralised empire in 221 BC. It is his name that has given rise to our name for China.

Until the 13th century AD, when Genghis Khan conquered China, it was the biggest country in the world and in many respects the leading state. His grandson decided that Beijing should be the capital. Thereafter followed a long period (up until 1911) of economic and technological stagnation and the country's leaders chose to isolate themselves politically from the rest of the world. However they were not altogether successful. The Portuguese arrived as the first Europeans in Canton (southern China) in 1514 and Great Britain established its first trading station in the same city in 1689. China suffered major military losses and was forced to cede a number of territories, among them Hong Kong, Macau, Vietnam and the Vladivostok region.

At the beginning of the 20th century the internal political situation in China was very unsettled. Increasingly strong forces wished to see a modernisation of society and in 1911 a revolution broke out which led to the overthrow of the empire in 1912. The Nationalist Party, Kuomintang, was formed and its leaders attempted to unite China.

The Communist Party was formed in 1921. After the end of the Second World War the Communists, spearheaded by their leader, Mao Zedong succeeded in mobilising the masses for a final victory in 1949. Contrary to the Soviet Union and the Communist

¹ Maddison, Angus (2003)

The Chinese economy

rule-book, Mao chose to mobilise the poor peasant masses and not merely the urban industrial workers. That was to become a lasting difference between the practitioners and theoreticians within the Communist Party. Communism in its Chinese version built on strong idealisation of the role of the countryside and the peasants in the development of society. That is in strong contrast with the massive centrally-planned economic investments which were made chiefly in heavy industry.

Mao Zedong

During the years up to the death of Mao, policy in China was marked by his "revolutionary path" of constant mass campaigns and revolutionary experiments. The "Great Leap Forward" of 1958 and the great proletarian "Cultural Revolution" of 1966–76 are the best known examples of this line. In practice Mao's policy meant, among other things, terror and the mass-execution of class enemies, especially at the beginning of the 1950s. The experiment of the "Great Leap Forward" consisted in Mao's desire, by a single concentration of force, to develop China as an industrial nation within the space of only about a decade. To make this possible everyone had to take part in collecting scrap metal in order to produce iron in primitive earthen furnaces. But the result was devastating. The iron produced in these primitive furnaces was unusable and, with the whole nation forced to work on iron-production, the peasants' crops failed. The result was a catastrophic famine, which is estimated to have cost the lives of at least 20 million people.

The Cultural Revolution was set in train in 1966 as a consequence of major internal struggles in the Party. Mao attempted to consolidate his ideology and to crush those who wished to choose another path. Together with his wife, Jiang Qing, Mao now began to eliminate members of the leadership who were regarded as having capitalist inclinations. The persecution gradually became more and more arbitrary. Young party activists, known as Red Guards, were mobilised in a fierce mass campaigns against all "bourgeois

The Chinese economy

elements". Teachers, administrators and other specialists were among those who were harassed and sent to re-education camps. In consequence, industry and education were deprived of labour, which in turn led to chaos and stagnation.

Among Mao's major mistakes was his lack of respect for objective economic and material preconditions. For example, the objectives of the "Great Leap Forward" point to a faith in the creative strength of the masses which lacked any basis in reality. In the same way, his refusal to see population growth as a problem constitutes until the 1970s an example of how he ignored political and economic realities.

The fact that Mao's policy could nonetheless be driven through was a result of the totalitarian political system, which pervaded the whole of Chinese society, with the Communist Party as the overarching power structure. The phrases were beautiful, but the implication was that almost all critical discussions were branded as counter-revolutionary. The purpose of the experiment was to raise China's level and establish it as a strong and respectable state, which would serve as an example to others.

China after 1976 – economic openness

When Mao died in 1976 Deng Xiaoping became leader of the Communist Party. Two years later he made a drastic switch in policy. It was decided to open up China to trade and investment by the outside world and to release market forces. The objective was to accelerate Chinese growth. An important reason for Deng's reform policy was concern for the Party. The Party would only be able to retain power if economic development in China was positive. But it is a remarkable fact and an irony of history that it was Deng, who joined the Communist leadership during the revolution, who was able to put himself at the spearhead of China's break out from the Communist economic straitjacket.

The Chinese economy

The new policy found expression among other things in the dissolution of the people's communes in the villages and the de-collectivisation of agriculture. Contrary to the previous policy, the peasants were permitted to increase their income on the basis of hard work and inventiveness. Within the service sector private enterprises were permitted and in industry production was to be governed by demand. Entrepreneurs, engineers and specialists obtained increased influence at the expense of bureaucrats and politicians and they were permitted to rationalise production in order to meet the needs of consumers.

The reforms were combined with an increased interest in the outside world. In particular, trade and the import of advanced foreign technology acquired great importance. A milestone in China's modern economic development was reached in 2001 when it became a member of the World Trade Organisation (WTO).

The second Great Leap Forward...

After the introduction by the Chinese leadership of the economic reform policy at the end of the 1970s China has undergone one of the most powerful transformations in world history. On average the economy has grown by 11 percent per year since 1978.² During this period more than 200 million Chinese have been lifted out of poverty.³

In 1978 China accounted for less than 2 percent of total world GDP. Since then its GDP has increased fourfold. In 2004 China's share of total world GDP was 5 percent. In 2003 the economy

² There is some uncertainty about the reliability of Chinese official statistics. The figure is probably somewhat exaggerated, according to international observers.

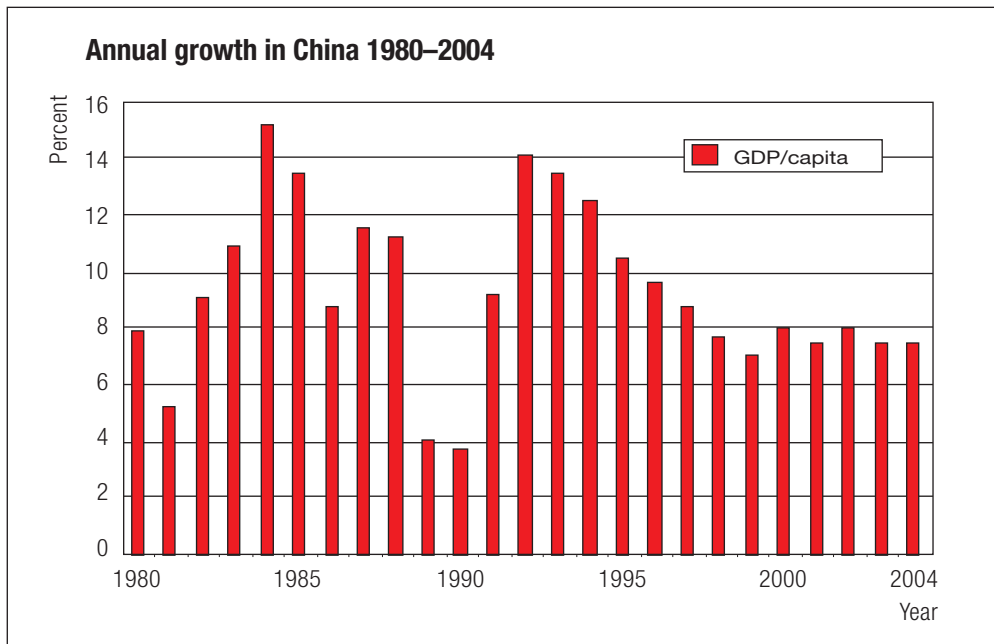
³ People who have less than \$1 per day to live on are classed according to the UN and the World Bank as "very poor". Calculations of this group take into account the fact that what a dollar will buy varies greatly from one part of the world to another.

The Chinese economy

grew by 9.3 percent and although the government expressed a desire to rein in the economy in order to avoid overheating, growth in 2004 ended at 9.5 percent. This increase alone corresponds to almost half Sweden's GDP.

The two most important driving forces behind growth are trade and investments.

Source: WTO



External trade

The economic reforms in combination with increased interest in the external world have meant that China's trade with other countries has shown a marked increase. Membership of the WTO in 2001 further reinforced this development. Total trade in 2003 reached 60 percent of GDP (1.15 billion US dollars) and China is today the world's third most important trading nation after the USA and Germany. The USA imports more goods and services

The Chinese economy

than any other country in the world, while Germany exports most. The USA, Japan, the EU and South Korea, in that order, are China's most important trading partners.

Exports

China is often described as the biggest factory in the world. It accounts for the manufacture of two-thirds of all the world's copying machines, microwave ovens, DVD players and shoes, over half of all digital cameras and two thirds of all personal computers.⁴

In 2004 China's export of goods increased by 38 percent during the first months of the year compared with the preceding year. In 2004 China's exports amounted to more than 1,000 billion dollars.

Imports

China not only affects the global trade balance as a major manufacturer, but also plays an increasingly important role as a market. Last year, its imports increased by 40 percent and during the last three years China has accounted for one-third of the increase in the volume of world imports. Demand in China for various goods has brought about a rapid increase in prices in the rest of the world. That applies in particular to certain raw-materials.

In 2003 China consumed:

- > 55 percent of all cement in the world
- > 36 percent of all steel in the world
- > 30 percent of all coal in the world
- > 20 percent of all copper in the world

⁴ The Economist 2004.10.02

In the same year China increased production of:

- › Motor vehicles, automated equipment by 85 percent
- › Steel by 22 percent
- › Electricity by 16 percent
- › Construction by 12 percent

Source: Swedish trade council

Foreign investments

Foreign direct investments are one of the most important mechanisms for the international transfer of technology and knowledge. Foreign direct investments mean that enterprises invest their capital in production capacity outside their home country. This includes among things the acquisition of foreign enterprises and the creation of joint ventures with foreign enterprises, as well as the installation and upgrading of machinery and equipment in the receiving country.

The Chinese leaders have been very successful as regards attracting foreign direct investments and China today is the world's largest recipient of inward FDI. This inflow has played a central role in economic development in the country during the last two decades. Foreign enterprises, which have invested in China, have been the driving force behind the modernisation of Chinese industry, both by furnishing new technology and skills and by giving China access to new markets.

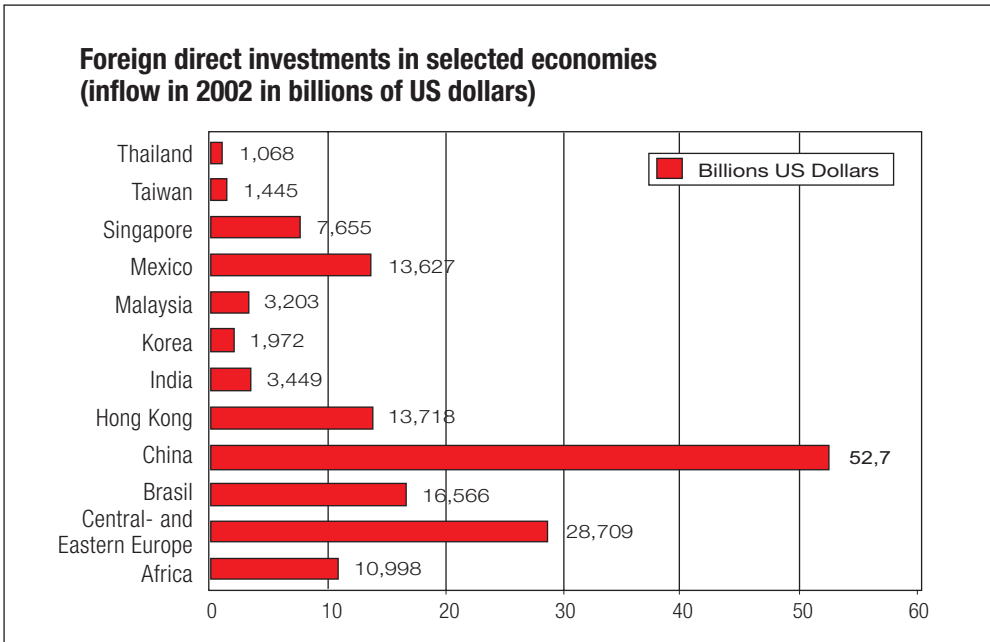
Since the beginning of the 1980s, when China began to open its economy to the outside world, the flow of investment has brought in an enormous capital sum, almost 500 billion US dollars. In recent years, over 50 billion US dollars per year have been invested in China. 10 percent of all FDI flows in the world go to China. By comparison India, which is also commonly mentioned in this context, long received US\$ 2 billion per year and is today at the level of \$5 billion per year.⁵

⁵ Swedish Trade Council and Chinese official statistics.

The Chinese economy

The multinational companies' share in Chinese industrial production has increased from zero at the beginning of the 1980s to 12 percent in 1995, and has since more than doubled to 29 percent in 2002. It is thus not particularly surprising that approximately half of China's exports come from multinational enterprises.

Source: WTO



Since, globally speaking, much the greater part of these investments take place between industrialised countries, China accounts for a completely dominant proportion of the direct investments in developing countries. Some developing countries have expressed unease that the multinational enterprises are redirecting their investments to China at the expense of other developing countries. The statistics show that there are grounds

The Chinese economy

for this anxiety. The annual investment flows to developing countries as a whole fell by 26 percent from 2001 to 2003, while the flow to China increased by 22 percent. China's share of the developing countries' FDI thus increased from 22 percent to 37 percent. Several other countries, such as for example Brazil, South Africa, Poland and Mexico, experienced a two-digit fall in FDI.

One branch, which has been particularly interesting for foreign investors, is motor vehicle production. From 1996 until the middle of 2003 global vehicle producers have invested \$12 billion in China's motor vehicle industry. Of this sum, up to \$5 billion had been invested even before China became a member of the WTO in November 2001. Since then investments in the motor vehicle industry have accelerated sharply.



China Today

Facts on the People's Republic of China

Capital	Beijing
Official language	Mandarin
Constitutional form	People's Republic
Head of State	President Hu Jintao
Head of Government	Prime Minister Wen Jiabao
Currency	Yuan (CNY)/Renminbi (RMB)
Chief industries	Iron, steel, coal, engineering products, clothing, textiles, domestic electronics, construction, transport, retail trade
Chief export products	Clothing, footwear, IT-equipment, domestic electronics and electrical goods

Source: Swedish Trade Council 2004

Key statistics, China, USA and EU

	China	USA	EU (25)
Population	1.3 billion	293 million	450 million
GDP increase (2004)	9.5 %	4.4 %	1.8 %
GDP (billion USD 2003)	1 409 852	10 881 610	10 482 737**
Inflation (2004)	2.7 %	2.7 %	2.4 %
Unemployment	4 %*	5.5 %	8.6 %
Trade balance (billion USD 2003)	35 422	-530 660	59 279**

*Urban unemployment, according to official statistics. Higher if rural underemployment is taken into account

** EU (15)

Sources: WTO, Ecwin, Swedish Trade Council

Social conditions

Fewer poor, but widening social disparities

The number of poor in China has diminished in a way that is of great global significance and the standard of living has improved for the great majority of the population. According to a report by the World Bank⁶, the proportion of Chinese earning less than

⁶ WorldBank (2004)

China Today

\$1 per day fell from 49 percent to 7 percent or from 490 to 88 million people between 1981 and 2002. Many are, however, only just above the poverty line: in 2001 46.7 percent of Chinese had an income of less than \$2 per day.⁷

At the same time as absolute poverty is declining, the gaps in society are increasing. China has long claimed itself to be socialist and the most equal society in the world, but today it is precisely the social injustice and the absence of equality, which are one of the country's greatest problems. The rural population and ethnic minorities have significantly worse living standards than the rest of the population and the income differences are significant.

In economic terms the so-called Gini-coefficient⁸ is often employed to measure income and wealth distribution in a country. A Gini-coefficient above 0.4 is an internationally accepted warning sign. In the year 2000 the figure for China was 0.46. That can be compared with India (0.38) which therefore has narrower income differences and with Brazil (0.60) where the problem is significantly worse than in China.

In the towns income in the year 2000 for the 10 percent of families, which had the highest incomes was eight times higher than the income of the poorest families. In the countryside the corresponding figure was more than nine times higher.

There are differences also between towns and villages. In the year 2003, incomes in towns were three times higher than in villages. But the actual differences are significantly greater than that, because the social safety net and access to medical care and other

⁷ According to the UN definition of poverty (see footnote 3 above). These figures have been adjusted for national variations in purchasing power.

⁸ The Gini coefficient is internationally the most widely used yardstick to measure income-distribution. The coefficient can vary between 0 and 1, where 0 means that everyone has the same income (complete equality) and where 1 means for example that all income in a country goes to a single individual (complete inequality).

social benefits are quite different for those living in the towns as compared with the rural population. If these differences are taken into account, the disparity is twice as great.

The same pattern recurs if one compares regions. In eastern China GDP per capita was 2.5 times higher than in western China in the year 2002.

In reality the disparities are even greater. In many branches of the economy there are bonuses and forms of extra income, which are significantly higher than the nominal wages. For directors of state enterprises the invisible (grey) incomes are 10 times higher than their nominal salaries according to a study in 2001.⁹

One way to compensate for this great inequality could be to have more equitable access to health care. But resources are invested in health care in the towns while even the very poor must pay for health care in the countryside.

Education

Another basic factor in the creation of equality is access to education. Even here however the Chinese Government still has much to do. China has the world's biggest and most under-financed education system. In the year 2000 less than 2 percent of GDP was spent on education, which is low even among developing countries.¹⁰

According to Chinese law, state primary schools are supposed to be free for those who live in the district. But in practice parents must often pay a number of different arbitrary and illegal charges. In certain regions up to 25 different kinds of illegal charges can be met with.¹¹ The effect is that many cannot afford to send their children to school.

⁹ Youya, Xu (2004)

¹⁰ Wong, Ola (2004)

¹¹ Youya, Xu (2004)

China Today

Parents who wish to send their children to a better school than the one closest to them must in general pay all the costs themselves. Other shortcomings in the education system are the big differences in standards between the schools in the towns and those in the countryside. The result is that between 10 and 20 percent of children at the primary and secondary levels drop out of schooling.

Far from all youngsters have the opportunity to study at university. The cost for a university student for year corresponds to one or two years' income for a normal peasant family and the payment of large sums by way of "voluntary donations" is often required before children are admitted to university. Even in this respect there are also injustices as between town and country. One example of them is that there are lower entrance qualifications to universities in the major cities such as Beijing and Shanghai than elsewhere.

"The mobile population" – China's growing underclass

A problem in China attracting increasing attention is the large group of people, commonly the mobile population or migrant workers. This concept refers to the approximately 120 million people who have left the rural poverty of western and northern China to seek work in the many factories to be found around the cities. They constitute a particularly vulnerable group in Chinese society. Their conditions are both formally worse than those applying among the ordinary population of the cities and they are often exploited by employers in different ways. Migrant workers are offered the worst jobs with the lowest pay and it is not unusual for employers to neglect to pay their wages and to allow them work under difficult conditions.

The formal conditions for the mobile population are worse than for the local population in the cities because in China the social security system which applies in the cities differs from that which applies in the villages. The differences are based on the registration

system which Mao created in the 1950s – hokoun. This system divided the Chinese into an agricultural class who lived in the countryside and an urban population of factory-workers. For many years the peasants had no right, without permission, to work or settle in the cities. Nor had they a right to the same welfare benefits, for example state medical care, housing and pensions, as city-dwellers.

Since economic reforms began to be introduced in the 1970s the physical barrier between town and country has been loosened up. Today it is possible for peasants to obtain temporary permission to work in the rapidly expanding cities.

On other hand, political rights and the social conditions are still linked to the place of birth. One example of the way in which political rights differ between urban and rural populations is that China's electoral laws prescribe that the proportion of representatives of the rural population must be a quarter of the number of representatives of the urban population. That means that the rural population's political rights, according to law, are only a quarter of those of the urban population.

As regards social conditions, only those permanently registered in towns have the right to benefits such as medical care and education. That means, for example, that children of the mobile population do not have the right to go to school in towns unless they pay high fees.

Migrant workers must always carry their passes. Anyone found on the streets without the right pass is sent back to the countryside by the police. The requirement for the correct hokou pass is frequently used by employers as a method of keeping their employees in the factories – they take charge of these passes when the workers arrive.¹²

12 Bjurling, Kristina (2004)

China Today

In 2003 the ICO¹³ carried out an extensive investigation among migrant workers in 16 districts in Guangdong. The researchers had contact with over 2000 employees and received 216 completed questionnaires from workers in the manufacture of sports articles, clothing, footwear, toys and electronic equipment. The commonest and most serious infringements of the migrant workers' rights were found by ICO to be extremely long working-hours, low wages, uncertain conditions of employment, inadequate or non-existent social security and an unhealthy working environment. It was found, for example, that 80 percent worked between 10 and 14 hours per day. A 14-hour working day is not at all uncommon in high season.

There is much information, which confirms the harsh conditions of the mobile population. The majority seem, however, to have better conditions in the growth regions of China than in the less industrially developed areas of northern China. It is often young women in the age groups 18–25 who find their way to the factories in areas of expansion, to work for some years before they return to their home regions.

Human rights

Individual rights have never been included in the Communist political rhetoric. In practice the concept has until recently been taboo but that is now slowly loosening up. At an academic level there is an interest among Chinese to learn more about the Western view of human rights. Last year (2004) the concept was even written into the constitution. Even if much remains to be done, since the 1970s clear progress has been made as regards respect for human rights.

The centres of gravity in the reform process lie, however, on the economic plane and political reforms in the direction of a more

¹³ Institute of Contemporary Observation, source: Bjurling, Kristina (2004)

open society are limited. China is still a one-party state, characterised by the Communist Party's monopoly of power.

Freedom of assembly, religious belief and association are strongly circumscribed throughout the country, which adversely affects democratic and union activists. Free trade unions are not permitted and every individual organisation must subordinate itself under one body or an officially approved national organisation.

Despite the lack of democracy the Chinese in general live a much freer and less controlled life today than they did 20 years ago. Both individuals and families can to a quite large extent make their own decisions about where to live, education, consumption, social contacts, leisure and travel. Freedom of the press and freedom of expression are still circumscribed but discussion in society at large is increasing in variety and strength of expression.¹⁴

Despite the fact that all individual organisations must be approved by the Chinese government many of them appear to work relatively freely, so long as they have no political purpose. That applies, for example, to environmental organisations and organisations working on the rights of women. Within these areas a civil society is gradually in the process of emerging.

But the picture contains contradictions. At the same time as increasing freedoms for the individual are to be seen, the penalties are severe for those who attempt to challenge the system. In 2004 at least 3400 people were executed, which is almost 90 percent of all death sentences carried out worldwide.¹⁵

The labour market/employment

Before the market reforms in China the state could compulsorily move people to where labour was needed. Millions of people were

¹⁴ Ljunggren, Börje (2004)

¹⁵ Amnesty International

China Today

forced to move for that reason. At the same time, the state guaranteed lifelong employment and keep, with no particular demands on the individual in return. Today the labour market is less tightly controlled even if the opportunities for people to make their own choices about employment or careers are limited.

The right to a lifetime job with the state was abolished in 1986 and even the right to a permanent wage, irrespective of the work carried out, has been taken away. Enterprises have today greater freedom to hire and fire. They also have the right to fix wages and salaries themselves. In combination with the fact that the state has set the objective of a drastic reduction in its loss-making enterprises, this means that the jobs of many, perhaps up to half, of the 75–110 million workers in the state sector are at risk.

The labour force consists of about 750 million people (which equals the number in the whole of the OECD area). Of these, 250 million are in the towns and the remaining 500 million in the villages. Unemployment in 2004 was officially 4.5 percent. However, official statistics on unemployment are misleading for a number of reasons. First, they are only a measure of registered unemployment in the towns and unemployed workers are not counted in the statistics until they have been without work for three years. Secondly, the statistics do not include the millions of surplus workers who have been sent home from loss-making state enterprises. According to a number of independent economists the actual rate of unemployment is significantly higher – at least 10 percent.

Nor do the statistics include the 150 million who have only casual or seasonal jobs in the towns. Also excluded are the enormous group of people in the villages who are either unemployed or under-employed. Unemployment is a problem for all sectors of society.

Despite the high rate of unemployment there are reportedly labour-shortages in some areas. The Ministry of Labour maintains

that there is a shortage of almost 2 million workers in the Pearl River Delta in southern China. This figure is probably exaggerated – there is still plenty of labour in China. There have, however, been improvements for the rural population in recent years thanks to political decisions on, among other things, tax reductions for peasants. This has probably contributed to some reduction in the incentive for people to leave the countryside for low-paid work in industry. On the other hand, enterprises in the growth areas report that it is becoming difficult to recruit and retain key personnel. For those Chinese who have been successful in hard competition the opportunities are almost infinite and there is often no great loyalty towards a given enterprise.¹⁶

The restructuring of state enterprises

One of the most important causes of the high rate of unemployment is the restructuring which is under way in state enterprises. When the economy was opened to the outside world and China became a member of the WTO it became apparent that in many cases the state enterprises were unable to withstand global competition. They were old-fashioned, inefficient and often had corrupt management. The simplest way for them to become more competitive was to get rid of surplus personnel, which resulted in millions of workers losing their jobs.

A minority of those dismissed have for some years been able to draw compensation corresponding to up to 50 percent of their former wages from the enterprise. However, the absolute majority lose not only their jobs but also the whole of the social safety net, which is linked with the company. Those employed in state enterprises have, among other things, the right to subsidised housing, health care and pensions.

However, privatisation and restructuring progress relatively slowly. The state enterprises still receive large sums in state sup-

¹⁶ According to representatives of Swedish industrial companies active in China.

China Today

port to prevent all too many people becoming unemployed at the same time. The situation is something of a Catch 22. The state continues to support state enterprises financially, to avoid mass unemployment, at the same time as it is hoped that the private sector will grow sufficiently to absorb the unemployed. But the private sector is not growing quickly enough, partly because there is no state support for starting new enterprises – state funds go to keeping the state's own enterprises afloat. About three-quarters of all bank loans in China go to state-owned companies, and as a result not much is left for small enterprises and the private sector.

According to the Ministry of Labour the number of jobs within the state sector has declined by 43 million during the period 1997–2000. During the same period the number of jobs within the non-state sector and the private sector increased by 16.5 million.

The imbalances between supply and demand of labour looks as if it will persist for the immediate future. According to the Chinese News Agency Xinhua the number of new job seekers, that is to say, people seeking work for the first time, will be approximately 15 million every year between 2003 and 2020. During the same period it will be possible to create a maximum of only 8 million new jobs per year even if growth continues at a rate of 7 percent per annum. Other sources have estimated that 25 million people will enter the labour market while the number of jobs being created is estimated to reach 10 million. The figures vary, but the general problem remains (as in many other countries, moreover) – it is simply that insufficient jobs are being created. The situation appears unlikely to change in the near future.¹⁷

¹⁷ China Labour Bulletin (2004)

Wages

Approximately 100 million of the inhabitants of China work in manufacturing industry and an additional approximately 7.5 million in mining. The number of employees in manufacturing industry rose at the beginning of the 1990s but declined again at the end of that decade. The cause was the extensive dismissals carried out within state- and collectively-owned industries. Of those employed in manufacturing industry, 55 percent are men and 45 percent women. Between 75 and 80 percent belong to employment categories which in our terminology would be called blue collar workers.

Average wage and labour costs in Chinese manufacturing industry in 2002¹⁸						
Classified by category						
Category	Number of employees (millions)	Annual wages in USD	Total annual labour cost (USD)	Monthly wage (USD)	Labour cost per month	Labour cost per hour
Major city	30	1 265	1 668–1 997	105	165	0.99
Smaller towns, rural villages	70	783	783–910	66	71	0.43
Of which large companies	19	1 010	1 010–1 170	86	91	0.54
Whole country	100	931	1 050–1 237	77	98	0.6

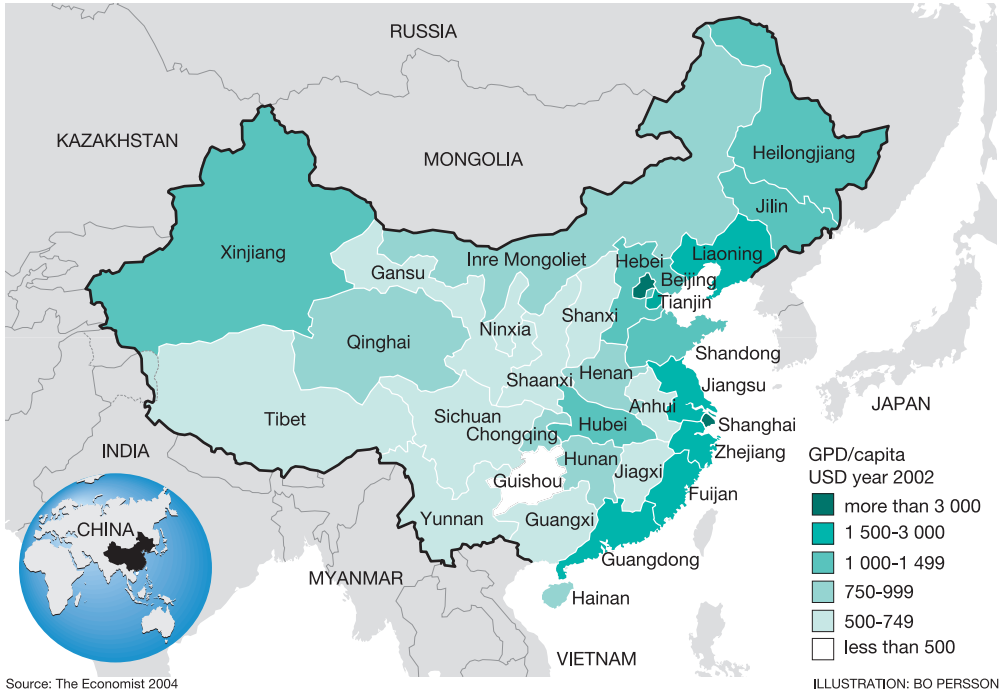
Source: Banister 2004

As the table shows, wages in the major cities are significantly higher than those in the countryside and in the smaller towns – on average, 60 percent higher. In addition, there are social costs and allowances of various kinds¹⁹, in principle only in the major cities. As a result, the total cost of labour is more than twice as high, approximately 130 percent higher, in major cities as compared with the countryside. This probably reflects corresponding differences in productivity. It should also be recalled that there can be

¹⁸ Total labour costs are given below as ranges, since the figures are very unreliable. All figures are rounded estimates and must primarily be seen as comparisons between levels.

¹⁹ For example, employer's pension contributions, insurance for loss of income through sickness or unemployment.

China Today



significant differences in branch-structure between, for example, the coastal districts of south-east China and the industry to be found in other parts of the country. These are factors, which naturally affect productivity and hence wages.

The wages of migrant workers

How do the wages of migrant workers relate to the above statistics? The available statistics on wages in manufacturing industry do not distinguish the wages of migrant workers from those registered in the towns. There is, however, much to indicate that the majority of the wages of migrant workers are not registered in order to avoid taxation of both enterprises and their employees. It

is also common for them to work in the industrial zones to be found in areas, which were previously agricultural land. Enterprises classified as rural enterprises need in principle pay their employees no social benefits or insurance contributions.²⁰

China is among those countries where wages are most depressed. Despite rising demand for labour in the low-paid industries, wages have not been raised. In 1996 workers in Shenzhen (most often migrant workers) earned US \$80–100 per month and now, eight years later, they earn approximately the same. The better factories pay possibly up to \$120 per month, but only during high season when the working day is very long. At some factories wages can be as low as \$25–30 per month, despite the fact that the minimum wage (which varies from province to province) averages around \$60 per month.²¹

Working conditions and trade union rights

Members of the ILO since 1983

Since 1983 China has been a member of the International Labour Organisation (ILO) and in 2001 signed a Memorandum of Understanding with the International Labour Office aimed at the establishment of a programme of co-operation with this organisation. China has ratified 23 ILO conventions but still does not recognise three of the core principles of the ILO, namely freedom of association, the right to organise and the right to collective bargaining. Freedom of organisation thus does not exist in China. China also has a de facto reservation on the right to organise, contained in two national laws: the Trade Union Law (revised 2001) and the Labour Law (1995). The former was revised in 2004 with a view to strengthening the role of trade unions but the ban on independent trade unions remains. The latter also circumscribed the right to strike.

²⁰ Banister (2004)

²¹ Bjurling, Kristina (2004)

China Today

Labour legislation and its implementation...

In Sweden most work conditions are regulated through collective agreements at different levels: the local level, the branch level or the national level.

Chinese labour law instead builds on individual agreements between employers and employees but the agreements must keep within certain laws and regulations.

Employees of an enterprise can of course reach collective agreements with the company, which apply to questions such as wages, working hours, rest periods, holidays, safety measures, insurance etc. Such an agreement guarantees that an individual contract between an employee and the company is no worse than indicated in the collective agreement. However, it is still the individual agreement, which regulates the most important conditions, and it is possible to conclude a collective agreement only for employees at an individual workplace.

In addition to the preconditions indicated in the individual contracts and collective agreements there are national laws governing working time, overtime pay, holidays, etc. Certain parts of Chinese labour legislation are drafted in relatively strong terms. For example, according to the law, a working day is 8 hours and a working week is 40 hours. Overtime must not exceed 3 hours per day or 36 hours per month. All employees have the right to one day off per week. This accords with ILO Convention C014, which China has ratified. After consulting the trade union and employees the employer can exceptionally obtain permission to extend overtime in specific cases if they have special short term needs.

According to Chinese law all employees in towns must be covered by four different social insurance schemes: pension insurance, accident insurance, medical insurance and unemployment insurance. According to the law employees and employers must enter into written employment contracts.

Chinese legislation also forbids child labour. New regulations were introduced on 1st of December 2002 with stricter requirements to prevent recruitment of children under the age of 16, and fines in case of infringement. In 2002 China also ratified ILO convention no.182 on the elimination of the worst forms of child labour.

Despite these relatively strict rules it is precisely long working hours, which are one of the major problems for workers in China, particularly among poor migrant workers. It is not unusual to work three or four times the permitted overtime. Other common problems are accidents at the workplace, withholding of wages and bad working environment.²² The problem is thus in the first instance not the laws but the fact that they are not obeyed. Very often the workers do not know their rights, and that makes them an easy prey for those wishing to exploit them. It also frequently happens that the authorities choose to turn a blind eye to the fact that employers create their own sets of rules in order not to frighten off investors. Migrant workers who come to the cities from the countryside belong to a particularly exposed group, especially the women. There are reports of migrant workers being used as slaves. Even child labour is exploited in certain sectors, for example the textile industry, despite the fact that those who employ children risk severe penalties.

Another exposed group are the miners. Safety standards in many places are very poor and a number of serious accidents in the numerous Chinese coalmines have been reported in recent times. Official statistics show that between 8,000 and 10,000 men per year have died in recent years as a result of explosions, subsidence or other catastrophes in the mining industry. In reality this figure is even higher, probably at least double. The state has attempted to close the worst mines, but they are still being operated for reasons of profit.

²² Bjurling, Kristina (2004)

China Today

According to the Chinese Constitution, which was modified in 1982, the employees' right to strike is strictly limited. While there is no explicit ban, there is, on the other hand, no guarantee of the right to strike and all forms of uprising are normally struck down by the authorities.

That means that in practice strikes are forbidden in China and those defying this ban risk being sentenced to long terms in prison for, for example, "threatening state security", "splitting the state" and the like. There is a term known as "re-education through work", which means that dissident thinkers and labour activists are sent to work camps. 310,000 people were sent for such re-education in 2001.²³

Trade unions in China

In a democratic country the above problems would have been typical matters for trade union organisations to tackle. In a country like China, where freedom of assembly and the right of association are severely restricted and independent trade unions are forbidden, the premises for this are altogether different.

The ACFTU

The All China Federation of Trade Unions (ACFTU) is the only trade union federation permitted in China. This organisation has 134 million members and they regard themselves as being the largest trade union federation in the world. In the state enterprises membership of the organisation is about 90 percent. In private and foreign companies the proportion of employees who are members is significantly lower and in the countryside there is no trade union organisation at all.

There are almost 590,000 local trade unions at Chinese places of work. They form part of a structure of town and district trade union organisations. These are in turn organised into 31 pro-

²³ Swedish ministry of foreign affairs (2003)

vincial trade unions, which together make up the central organisation, the ACFTU.

Alongside the geographical structure there is also a branch structure with 16 federations. This is however an internal structure within the ACFTU, not independent federations as in Sweden, for example. The centre of gravity in the activity of the ACFTU is the geographical structure with provincial, urban and industrial unions.

The National Congress is the highest trade union body. Congress meets every 5th year and consists of 267 members. The executive committee is in charge between Congresses and also appoints the leaders and members of the presidium. The presidium, with 39 members, exercises authority when the executive committee is not present. Under the presidium there is a secretariat which is responsible for day-to-day work.

All places of work with at least 25 employees have the right to form a local trade union so long as it is linked with the ACFTU. Employees also have the right to elect their union representatives.

Membership dues are 0.5 percent of wages. In addition, according to law there is a further levy of 2 percent, which must be paid by the employer to the trade union. At the provincial level there can also be income from business activities. In many places the trade union movement owns, for example, hotels, nightclubs and restaurants.

The Chinese metal workers' union

The Chinese Machinery and Metal Workers' Union organises employees in roughly the same sorts of branches as Svenska Metall (ore mines, the steel industry, the motor vehicle industry, engineering industry and the electronics industry). There is also a miners' union, which organises employees in coal mines. The more than 20 million members distributed among 110,000 local

China Today

trade unions makes the metal workers' union the largest branch federation.

The HKCTU – an independent trade union movement in Hong Kong

The Hong Kong Confederation of Trade Unions (HKCTU) was formed in 1990 and has 160,000 members. It works on the basis of democratic principles and is a member of the international trade union organisation ICFTU. It is physically situated in Hong Kong and in the first instance works to improve conditions for workers in Hong Kong. However, they also try to support workers on the Chinese mainland, among other ways through close co-operation with the voluntary organisation Hong Kong Christian Industrial Committee (HKCIC), which sees one of its most important tasks as being to support migrant workers in southern China. They also have close co-operation with the journal China Labour Bulletin that regularly publicises and reflects the situation of workers in China.

The role of trade unions in China – ACFTU

The Chinese trade unions' role differs from that of the Swedish and the majority of other trade unions in the Western world. The international trade union movement, regards the ACFTU more as a government organ for labour law questions than as an independent trade union organisation.

Comparison with Swedish trade unions makes the ACFTU's role more explicit. In Sweden the employees form a trade union in order to be able to act collectively in questions affecting relations between an enterprise and its employees. The trade union manages conflicts, negotiates, represents and speaks on behalf of the workers' collective. The members themselves choose their delegates and can dismiss them in accordance with statutes drafted by the organisation itself.

In China the trade union operates instead as a third party between the employees and the employer. The trade union has the right to

intervene if it considers that an individual contract is wrong, but it does not represent individuals. The trade union must rather be seen as an extension of the Communist Party's influence at the workplace.

It is not the role of the trade union to negotiate whether employees of a company should conclude a collective agreement with an enterprise, but rather to draw up the contract at the initiative of the management and employees.

Insofar as there are collective agreements these are concluded at the enterprise level, not at the national level. Collective agreements are concluded between an enterprise and a trade union, or alternatively the elected representatives of the employees if there is no trade union. Such agreements are, however, a new phenomenon and there is no extensive experience of negotiation. In the collective bargaining, which has so far taken place, it is therefore most frequently the employers' side, which has had the initiative.

As regards conflicts at the workplace the trade union has a clear role – however, not as a representative of the workers but as a mediator between the employees on the one hand and the company on the other hand.²⁴

The reason for the fact that the Chinese trade union movement cannot represent workers is that, in addition to protecting the interests of employees, they also have other objectives to pursue. According to the trade union law of 1992 it is the trade union's task to "regulate labour with the objective of improving productivity and economic efficiency, as well as to play an active role in socialist modernisation under the Communist Party". The ACFTU must thus function as a bridge between the Communist Party and the working masses as well as representing the interests of both members and non-members in the work place. The diffe-

²⁴ Edling, Jan (1998)

China Today

rent roles mean that the ACFTU often finds itself in a dilemma. It has to work to implement official policy while at the same time this policy means that millions of members in the state enterprises have become unemployed and will remain so. The conflict of objectives arises also in private enterprises. If the trade union movement were to make too big demands on the enterprise, it would at once mobilise the local authorities against it. The most important goal for all parties is, after all, not to frighten away investors.

The ACFTU regards itself as an organisation, which protects the best interests of the workers, and it does so in many ways. Ordinary trade union activities in China include organising leisure activities, accommodation and to some extent education of the workers. Other areas, which are customarily the responsibility of the trade union, are the working environment and health care.

ACFTU membership has declined sharply in absolute numbers during recent years. That is in the first instance because many state enterprises have been privatised. The ACFTU therefore sees it as an important role to organise the workers in foreign companies, something which is not altogether without its complications. In recent times the Chinese press has reported that multinational companies (Wal-Mart, McDonalds, Dell Computers and others) forbid their employees to form trade unions, despite the fact that they are state unions. The companies' defence is that it is their policy never to allow their employees to form unions and China is no exception. This attitude has created great irritation within the ACFTU, which threatens to blacklist and take legal measures against companies, which infringe Chinese legislation.

The rising a number of labour conflicts – a sign of trade-union mobilisation?

Throughout China there are reports that the number of labour market conflicts, wild strikes and expressions of protest has sharply increased recently. A main cause is the major cutbacks in

state enterprises. Within the steel sector, for example, more than 30 million people have lost their jobs in the last five years. Sometimes these protests lead to the payment of wages and benefits that have been withheld; sometimes they are met by force and arrests.

But even in private companies protests among the workers are on the increase. The labour law is not suited to the new situation of cutbacks in state enterprises and a constantly increasing proportion of enterprises in private ownership.

The majority of protests are organised by spontaneous groups and are not supported by the ACFTU. In some areas nonetheless the trade union will act as a mediator between those protesting and the enterprise. The question is whether one is to see this growing number of conflicts as an indication that the Party is beginning to have a more tolerant view of the right to organise and that the scope for dissident thinking has increased? It is probably wise to be cautious about such conclusions. It is true that there is greater tolerance towards workers in general who protest, but any individuals or groups who are regarded as having acted as leaders are still severely punished.

Compared with the situation 10 years ago there are nonetheless greater opportunities today to discuss the conditions of the workers and human rights. In southern China a form of workers' centres has been created by voluntary organisations, which in different ways aim to support workers. Formally it can be a reading and writing centre for workers where there are volunteers who can help with problems of different kinds, for example industrial injuries. An important purpose of these centres is to increase awareness among the workers of what rights they have under Chinese law and international conventions. There is, however, no question of formal scope. As soon as there is any suspicion that an illegal organisation or association has been set up it must be dissolved.

China Today

A fundamental attitude, which goes back to the Communist idea of the state as the "dictatorship of the proletariat", holds that there can be no conflict between employers and workers. This is despite the fact that in certain sectors over 80 percent of employers are now private. But a constantly increasing proportion of private enterprises, many of which are foreign-owned, means that the need for the workers to organise themselves vis-à-vis the enterprises will probably increase in future.

The factor, which tells against any noteworthy improvement in the conditions of the workers in China within the immediate future, is the availability of labour. The most important thing for people today is to have a job in order to be able to provide for themselves and their families. That means that there is a widespread fear of "being a nuisance". If the conditions don't suit, there are thousands of others in the queue for a job.

At the same time the development taking place in China means that changes will in all probability be necessary even within the ACFTU. Rapid growth creates a need for more competent labour and in many places there is demand for a complement to the many casual employees from China's poor in internal areas, in the form of a more stable labour force, which can be further trained. The demand for qualified personnel creates in turn a need for better labour conditions, accommodation, training, wages etc. These outward demands can become of great significance for the emergence of a more modern and democratic trade union movement.





Swedish enterprises in China

Since 2003 China has become Sweden's biggest trading partner in Asia. Until then, Swedish trade was primarily with Japan.

Between 1991 and 2001 exports from Sweden to China increased by 910 percent. During 2003 Swedish exports to China totalled 17.5 billion Swedish crowns. That corresponds to 2.1 percent of Sweden's total exports that year and is an increase over 2002 when it exports were worth 13.8 billion Swedish crowns (1.8 percent of GDP). During the period 1998–2000 the telecommunications branch accounted for 60 percent of all Swedish exports to China. In 2002, during the IT crisis, this proportion fell to 17 percent, in value worth approximately only one-quarter of the figure in 2000.

Leaving aside telecommunications the trend has, however, been a gradual positive development since the end of the 1990s. Examples of products, which have shown major increases in recent years, are medicines and pharmaceutical products, metals and processing machinery, electro-medical instruments and apparatus as well as means of transport (trucks and motor-vehicle components – not cars).

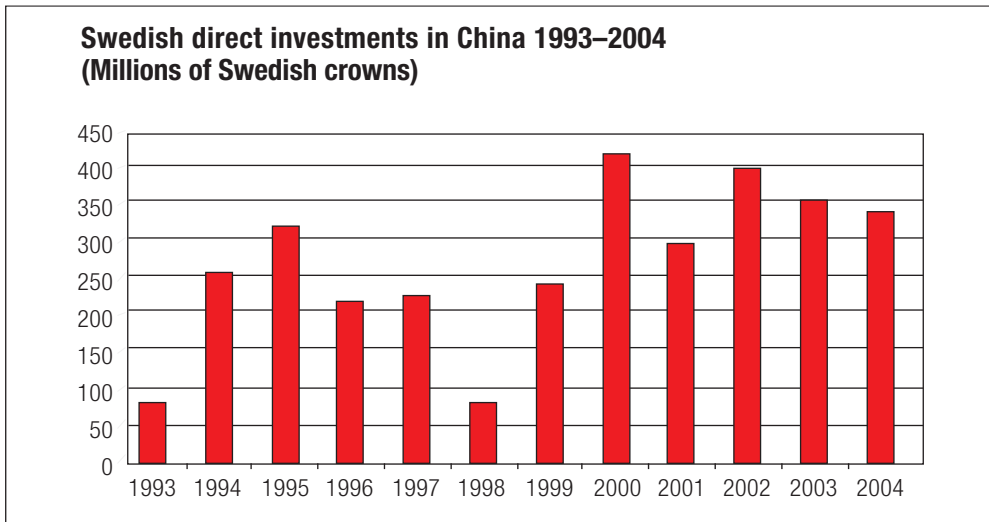
During the same period (1991–2001) imports to Sweden from China increased by 387 percent. In 1993 Sweden imported to a value of 20.9 billion Swedish crowns, which corresponds to 3.1 percent of total imports into Sweden. Equipment for telecommunications products accounts for the greater part of the increasing import of goods. During the economic crisis (2002) it fell, however, by 51 percent. Other major import products are clothing, sports articles, toys and games. The goods that have increased most in recent years have been home-electronics, certain fuels (coal), domestic appliances, measuring and control equipment, and furniture and bedding.²⁵

²⁵ The Swedish national board of trade (2003) and the Swedish trade council (2004)

Swedish enterprises in China

Swedish enterprises began seriously to invest in China in around 1993. Thereafter investments increased until 1995, after which there were major fluctuations until 2002. Today, the total of all investments by Swedish business interests in China stands at not less than 10 billion Swedish crowns.

Source: Sveriges Riksbank



About 200 Swedish companies are registered in China. Together they have about 30,000 employees and 450 offices. The sub-contractors linked to these Swedish companies have in turn about half a million employees. Every year on average 10 new companies from Sweden are established in China. The majority of the major companies employing members of Svenska Metall in Sweden, are active in China. They include SKF, Ericsson, Volvo, Electrolux, Atlas Copco, Sandvik, ABB, Alfa Laval and ITT Flygt.

These Swedish companies had in total revenues of about \$ 4.6 billion in 2003, of which approximately \$1 billion comprise exports from China.²⁶

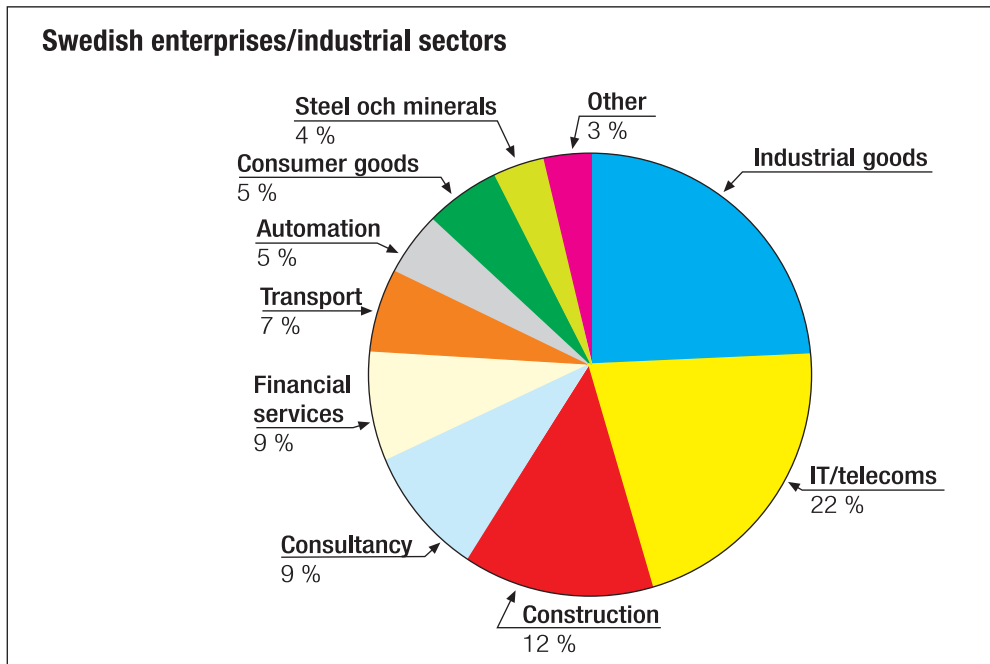
²⁶ Swedish Embassy in Beijing, China business climate report (2004)

Swedish enterprises in China

As regards the number of employees, revenues, exports and investments it is enterprises within the IT/telecoms and industrial goods, which dominate Swedish business in China. In terms of numbers they represent about half of all the enterprises. 4 in 10 of these Swedish companies have their own production plants in China. 3 in 10 are active in the service sector and almost 3 in 10 are concerned chiefly with the sale of industrial goods.

It is the major companies, which have the greatest proportion of employees – 9 in 10 of those employed by Swedish enterprises are employed by major companies. At the same time two-thirds of all Swedish companies active in China are small or medium enterprises. Many of these are however sub-contractors to the major Swedish companies.

Source: Swedish Embassy,
Beijing, 2004



Swedish enterprises in China

Swedish companies have a good reputation in China, which can be explained by a number of factors. One is that well-known Swedes, such as the inordinately popular table-tennis player J-O Waldner, have contributed to creating a positive image of Sweden and the Swedes. Another explanation is that Sweden was the first country in the Western world to recognise the People's Republic of China when it was declared in 1949 – and that is the sort of thing that is remembered. The fact that Sweden has long had a Social Democratic government is also seen as a positive factor. But it also results from the fact that Swedes are regarded as good employers who look after their employees, particularly if one compares them with other foreign employers. Asiatic employers from Hong Kong, Korea and Singapore are regarded as the most ruthless towards their employees.

On the whole business goes quite well for Swedish companies active in China. According to an inquiry made by Exporrådet in the Shanghai region, 85 percent of the Swedish companies are profitable. The majority of all enterprises reach break-even within one or two years. 95 percent of them believe that there will be increased growth during 2005.

Why manufacture in China?

This next section is primarily based on interviews and discussions, carried out in Beijing and Shanghai in October 2004 and March 2005, with representatives of a number of large and medium-sized Swedish companies operating in China.

Access to the market

In most cases, access to China's large market is the decisive reason why companies choose to set up operations there. With its 1.3 billion inhabitants, China is the biggest country in the world. Even though the great majority are poor, there is a middle-class with relatively strong purchasing power, consisting of about 300 million Chinese. For example, there are already 270 million mobile telephone subscribers, which is 20 percent of all mobile telephone

Swedish enterprises in China

customers in the world. This market is the main reason why Ericsson consider that they must be in China.

To succeed on the Chinese market it is necessary to find a niche in which to compete on the basis of quality. It is almost impossible to compete on price, at least as regards consumer goods such as, for example, clothing, footwear, furniture and electronic domestic appliances. These goods are manufactured significantly more cheaply by the Chinese themselves. There is, on the other hand, a large market for investment goods for industry and products, which are used in the construction of the infrastructure. There are also big opportunities for the motor-vehicle industry on the Chinese market, despite the fact that a truck from Volvo costs almost three times as much as a truck manufactured by a Chinese company. As regards passenger cars, there are also major business opportunities developing in step with the increasing prosperity. Even now, approximately 1000 new cars are registered per day in Beijing, despite the fact that is only the upper-middle-class, which can afford to buy a car.

Atlas Copco and AB Volvo – two Swedish companies benefiting from the Chinese market.

Atlas Copco is among the companies, which early discovered China's potential – they have been exporting there since the 1920s. Until the 1960s all sales came from Sweden and *Atlas Copco* was a well-known name in the Chinese mining industry. At about that time a sales office was opened in Hong Kong, as was common among foreign companies wishing to enter the Chinese market. In 1983 the management decided also to start manufacture, beginning by permitting Chinese companies to manufacture certain products on licence. Some years later *Atlas Copco* started a number of joint venture companies with some of its Chinese licensees. This transformation, from export-sales to owning production capacity in China, culminated in a wholly-owned holding company in China which was registered in 1997 (*Atlas Copco (China) Investment Co. Ltd.*). Today *Atlas Copco*

Swedish enterprises in China

have six production plants in China, including a compressor-factory at Wuxi, north-west of Shanghai, and a drilling-equipment factory in Nanjing. The production plant there manufactures approximately the same range as does the company's plant in Örebro.

The reason for the decision to set up their own production in China was primarily that there is no reason to freight major components from Europe to China when they can equally well be manufactured there. For the time being, only simpler components are manufactured in China but change is under way. In 10 years time it is likely that most of what is sold on the Chinese market will also be manufactured there. However, it is not a question of moving production from Sweden to China, but rather of expansion on a large new market.

It is unlikely that Atlas Copco's plant in China will in future export finished products to Europe. On the other hand, components, above all high-technology items, will probably be exported from China to Europe and the rest of the world.

AB Volvo began production for the Chinese market as recently as 2004. This was a result of six years negotiation with its state-owned partner, China National Heavy Trucks. Platforms and cabins are manufactured at the newly-opened plant in Jinan. Production in Jinan is intended exclusively for the Chinese market and at the present time there are no plans to export outside China.

However, the Volvo Group not only builds trucks in China but has also chosen to make an effort over a broad front. The strategy is to continue to grow and Asia is the major growth market, with China as the key to other markets. Currently everything from buses and heavy trucks to marine engines and construction machinery is being manufactured there. These opportunities for expansion derive from the huge infrastructure development which is in progress in China, not least in preparation for the Olympic Games in Beijing in 2008. It is important to be on the spot.

Swedish enterprises in China

Lower costs

The second major advantage, which in principle all companies mentioned, is the plentiful availability of cheap labour. The importance of labour costs varies according to how labour-intensive production is. For Sony Ericsson this is a decisive factor as regards the choice of country in which to produce telephones. The assembly of mobile telephones is complicated and difficult to automate. At the assembly-plant in Beijing more than 3500 people each work on the installation of a specific part of a mobile telephone. The majority are women because it is an advantage in this work to have small hands. For Atlas Copco and Volvo, however, low wages are of no great importance as regards the decision to invest in China, and they are rather to be considered as a bonus. Instead, it is the expanding market, which is the most important reason for being in China.

Labour costs of Swedish companies in China

The wages of employees in Swedish company naturally vary depending on the type of job and what kind of work is being carried out. The Swedish trade council estimates that the monthly wage for assembly-workers lies in the range between \$75 and \$115, for foremen and production managers between \$735 and \$840 and for specialists and salesmen between \$415 and \$620. Swedish companies pay in general a little more than the average wages in the regions in which they operate.

The minimum wage in the city of Jinan, where AB Volvo's factory is situated, is approximately \$120. At Volvo, wages vary between \$170 and \$890, apart from the managing director who has a higher salary. For the assembly-workers who are divided into four categories pay varies between \$170 and \$355 per month. For white-collar employees pay varies between \$270 and \$885 per month.

In addition to wages, companies must under Chinese law pay a sum equivalent to about 45 percent of the employees' wages in

Swedish enterprises in China

various social insurance contributions. Employees themselves pay an additional approximately 20 percent for social insurance.

As mentioned above, there are big differences between wages and social insurance costs as between towns and villages, and as between employees who are registered in towns compared with the so-called migrant workers. Conditions also differ as between different cities.

The client insists on transfer to China – the Tradex example

Tradex develops, manufactures and delivers components for mobile telephones. The head office is in Kungälv and the major owners are EQT and the Sixth AP Fund. In all it has about 500 employees, of whom 350 are in China. The company's most important customers are Sony-Ericsson, Motorola, Nokia, Siemens and their sub-contractors. They transferred production to China because one of their most important customers, Sony Ericsson, made it a condition for their continuing to be a supplier. Ericsson themselves were in turn faced with the requirement that they could only continue to be active in China provided that a certain proportion of their components were produced there. The Chinese authorities demand local content in key business, including the electronics industry, and in that way attach to themselves certain foreign investors who might otherwise not have come.

In 1999 Tradex established a factory in the city of Langfang, which lies some 350 km. east of Beijing. The choice of production-location was determined by the strategic position close to a number of major customers. In addition, the factory lies in a so-called economic development zone, which gives many advantages, which the company could exploit.²⁷ A further advantage is the cheap labour supply. Wage costs are only half of what must be paid for similar labour in Beijing, which is not very far away.

²⁷ Examples of the advantages of operating in development zones are cheap land and tax-concessions.

Swedish enterprises in China

In the beginning, the factory at Langfang manufactured components, which had been developed in Sweden. Today the company has development centres at a number of places in China and expansion continues elsewhere in Asia. This operation is largely independent of technical support from Sweden, as the local employees develop new models together with both global clients and Chinese mobile telephone manufacturers.

Research and development in China

Companies, which have earlier moved production to China, find after a while that it is natural to localise production there. A representative of a Swedish company in the telecoms branch puts it this way:

”Three years ago our company had a clear strategy – we would locate production in China, but retain new product development in Sweden. A year later a development unit was established in China. Today our company is very profitable and exports finished products to Sweden among other places.”

Even the major companies in the telecoms branch such as Nokia, Sony-Ericsson and the German firm Siemens have announced that a major part of their products will in future be designed and developed in China. Within a couple of years Motorola will have about 5 000 research engineers there.

For the mobile telephone sector there are a number of factors of significance making it attractive to localise research and development in China. In the first place China, as has been indicated above, is the world’s biggest mobile telephone market. Secondly, Chinese manufacturers have begun to dominate the domestic market and thirdly these manufacturers have contributed to putting heavy downward pressure on prices for mobile telephones, thanks to their low manufacturing costs. Mobile telephones are moreover a knowledge product in which a large part of the added-value lies in design and development. Leading inter-

Swedish enterprises in China

national manufacturers see opportunities to reduce their costs and to exploit Chinese engineering strength.²⁸

It is true that the mobile sector is rather special, but it is probable that a similar development will occur in a number of sectors. There are two important reasons for this. The first is China's rapid upgrading - they are no longer content merely to produce; Chinese companies also wish to participate in development, to bring out their own products and to compete with leading Western companies even as regards more advanced product areas. The second factor is that production and development become more and more intertwined. Within industries with advanced technology and complex products there is strong pressure for rapid product development and rapid industrialisation. It is important for companies to be the first to furnish their customers with new products, services and solutions. In that way companies can increase their sales volume and moreover charge a higher price. By having a close connection between production and development, companies can also reduce the time from idea to large-volume manufacture.

Advantages and disadvantages of production in China

A well-trained and motivated labour force

Well-trained labour is plentiful in China, even if the percentage share of those with higher education is low. Every year as many engineers complete their training in China as in all OECD countries put together. Even at lower levels there is ample labour. At AB Volvo the majority of the employees have between two and eight years' experience of work at Volvo's partner, China National Heavy Trucks. Some of them have also worked abroad, chiefly in African countries. 67 percent of the work-force have passed an examination corresponding to the Swedish High School or Technical High School and more than 15 percent have a

²⁸ Sigurdson, John (2004)

Swedish enterprises in China

university education. In general those employed in production in the Swedish companies in China have a higher level of education than those working in the corresponding jobs in Sweden. One of the Swedish company representatives is of the view that in Sweden it is difficult to recruit and retain people with technical training for jobs in production as they very often regard themselves as over-qualified for that kind of work. In China the availability of technicians is so great that there are no problems for companies in retaining them, even for simpler tasks.

Trained students				
	1995	1997	1999	2001
Total	805 000	829 000	848 000	1036 000
Technical faculties	396 000	405 000	417 000	465 000

Source: Breidne 2004

Special economic zones

The production plants of Swedish Companies are most frequently located in "special economic zones". Special economic zones are to be found in a number of countries but are very common in China. The term indicates a limited geographical area in which enterprises enjoy various concessions. For example, it is common for companies to be exempt from profits tax during the first years.

When the Chinese authorities embarked on the process of opening up the economy to the outside world they began with five special economic zones, which were allowed to conduct a more liberal policy than the rest of the country. All these zones lay in southern China and in several of the areas concerned there was at the beginning of the 1980s little settlement. This policy led to an enormous expansion of the areas which were chosen and which are today at the centre of Chinese export industry. The number of special economic zones has since grown and today comprises 124 zones with a total of 30 million employees. Special economic zones are divided into three levels: national, regional and local, and the higher the level, the greater the advantages for foreign

Swedish enterprises in China

companies. The major reason why Swedish companies chose to place their production facilities in special economic zones is the ready availability of labour seeking jobs there, together with the fact that these zones also have a well-developed infrastructure. This makes it easy to find sub-contractors and clients, as well as to organise transport to and from the production plants.

In contrast to a number of other countries with special economic zones, Chinese law does not permit companies in them to apply working conditions different from those applying in the rest of the country. In practice, it is precisely in these zones that the conditions for workers are worst. Unqualified workers from the whole country make their way to them, in the hope of a better future. There is a great risk of their being exploited in different ways, since the authorities tend to turn a blind eye to the working conditions set by the companies in order not to run the risk that foreign investors will be frightened off.

”Life is easy in China...”

A number of the company representatives interviewed had had experience of working in other countries and were of the view that in general China is a country in which it is easy for foreign investors to work. There are a number of contributory factors. One important factor is that to one can get by very well in English. A second factor is that the centrally planned economic system makes it easy to predict what will happen. There are rarely unpleasant surprises in the form of hasty political decisions. The hierarchical system also means that what the party leadership decides shall happen does indeed happen. One example is the way in which Beijing built six major ring roads through the city in a short space of time. In a democratic country it would probably have taken many years of protests from inhabitants and other lobby groups, legal appeals, and so on. In China the authorities never ask anyone for permission – if there are people living where the main roads are to be built, they are quite simply moved elsewhere. China is also regarded as being relatively safe from terrorist

Swedish enterprises in China

attacks and as a relatively secure country for company personnel and their families to be. The firm control of society also contributes to the fact that companies see only limited risks of extensive social unrest and internal conflict.

Despite the fact that Chinese in general are often very nationalistic they are not hostile to strangers. Foreigners are met with a positive form of curiosity, even if they are not always regarded as reliable. Many people have the attitude that foreigners are in China in order to help the Chinese catch up, which is regarded positively.

Quality

There is little scope to renounce quality simply because of the decision to manufacture products in China. The major Swedish companies active in China have in general the same quality standards for their products, irrespective of the country. Volvo Trucks must, for example, approve all components being built into a truck if it is to be allowed to be called a Volvo. This is a complicated task which takes time and costs a lot of money, but which pays for itself in the longer term. The Swedish companies do not find it difficult to maintain high standards of quality in China. On the contrary, one Swedish managing director expressed the view that "Chinese workers have an innate sense of quality, without thinking about it."

Cultural differences

The Confucian tradition is very strong in Chinese culture and society, which has consequences for companies with Chinese employees. According to those whom we met, this has both advantages and disadvantages. Among the advantages, in their view, is that employees are very easy to deal with. According to Chinese tradition people obey their superiors and few would even think of calling in question a decision taken by someone higher up in the hierarchy. It is extremely unusual for employees to demand a voice in decision-making. On the other hand, this cultural difference can also imply problems. In Western companies it is assumed that

Swedish enterprises in China

employees will act on their own initiative and be able to take their own decisions, something which is very unusual in Chinese companies. Chinese personnel are used to the fact that even details must first be approved by a superior. As regards the more qualified white-collar jobs, a number thought that Chinese culture can be a problem on this point since it does not encourage critical thinking or a capacity for innovation. Companies prefer therefore to look for personnel who have previous experience of Western companies and/or who have studied in Europe or the USA. At SKF they tried to bridge over cultural differences by offering all personnel, irrespective of their position, training in Western culture and the English language.

The philosophy of **Confucius** was wholly directed to man as a social being. His doctrine values order, stability and harmony above all. Chaos is the worst thing imaginable. In Confucianism it is axiomatic that subordinates are loyal to their superiors, that a wife obeys her husband, that the young obey the old and that everybody obeys the Emperor whose commands have an almost divine weight. But this intellectual world also presupposes an enlightened leadership and a bad ruler deserves to be deposed. Confucianism places great weight on diligence, virtue and strong family ties.

Confucianism has put its stamp on the rituals of state, many philosophical and juridical works, and so on. Despite the fact that the Communist Party has attempted to root out old traditions this philosophy still characterises Chinese society to a great extent.

Respect for patents

A relatively serious problem for foreign investors in China is that patents are poorly respected. There is a legal framework for patents and protection against pirate copies but it is poorly observed and few cases have so far gone to court. The problem is greatest in manufacturing industry, which means that transferring production to China brings increased risk of illegal copying.

Swedish enterprises in China

According to a study carried out by the Swedish Embassy, Swedish companies in the industrial goods and construction branches are those most exposed to pirating. Even the steel and minerals industries, together with the motor vehicle industry, have suffered and the pirating of CDs and DVDs is extensive. It is particularly risky from the copying point-of-view to enter into a joint-venture company, even though it brings other advantages. IT/telecom products appear on other hand to survive relatively well, since they are of a kind very difficult to copy.

The Chinese leadership have heeded criticism from the EU and the USA as regards inadequate respect for patents (so-called intangible assets) and have launched a year-long campaign to get to grips with the problem. This campaign will primarily focus on the protection of brands and the pirate copying of CDs/DVDs.

Unfair competition and corruption

Swedish companies also mention that they are often forced to compete on conditions, which differ from those applying to domestic companies. Certain domestic companies are given favourable treatment by the local authorities such as cheap land, offices, natural resources and cheap credit. Corruption is very common in Chinese society, both among the authorities and companies. A typical example is that a company may be expected to pay for the education of a client's children in order to obtain a major order. One Swedish company considers that an active decision must be taken to keep completely clear of corruption if one is to succeed in business in China. Many customers are likely to be lost that way but on the other hand it avoids laying up problems for the future.

The Chinese leadership is fully conscious of the problem of corruption. Within the Party itself the problem is widespread among local politicians in the smaller cities. In order to tackle it various campaigns are conducted to bring corrupt leaders and politicians to book. The penalties are often severe - even including

Swedish enterprises in China

the death penalty. The aim is to deter others from similar activity, but the results have so far been limited.

Trade union activity in Swedish companies

The Chinese trade union, the ACFTU, is represented at the production plants of the majority of Swedish companies, but not all. At a number of workplaces the whole workforce are members of the trade unions – even the Managing Director and the Board of Directors. At one company the management was tasked by the regional trade union organisation to ask the employees whether they wanted to start a local trade union branch at the workplace. The employees rejected the offer since it would have meant that 2 percent of their pay would go in trade-union dues. The advantages, which a trade union organisation at the company would bring, were not commensurate with this sacrifice.

Irrespective of whether the ACFTU is represented or not, it does not have the trade union role we are accustomed to in Europe. The role of the trade union in Swedish companies varies, but it very often seems to have an exclusively social function. At one factory the Swedish management considered that they ought to have a somewhat more serious task and they therefore made the trade union responsible for security questions and industrial safety. At another enterprise they have concluded a collective agreement but it was reached without need for negotiation with the employees – even the management were members of the ACFTU. One Swedish Managing Director, who had experience of working in a number of different countries, noted that "Not having to negotiate with the trade union is certainly one of the advantages of operating in China"





The China of the future

Xiaokang – the new political vision

China has new leaders who have now been in power for more than a year. Deng Xiaoping, who died several years ago, had in 1988 already marked out Hu Jiantao to be the successor to Jiang Zemin, who was party leader from 1989. Today Hu Jintao is the leader of the Communist Party and President of the Republic. The new government is led by Prime Minister Wen Jiabao.

Latterly, the government has begun to show greater sensitivity to the major social differences in China and to the mobile population's difficult situation. There is talk of "the five imbalances" which all create tensions in Chinese society. These imbalances are those between town and country, between the east coast and the interior, between rich and poor, between men and women and in the environment.

At the 16th Party Congress in 2002 a vision was formulated for the period up to 2020. The rapid rate of growth should be maintained but was considered not to be sufficient in itself. The sustainability of development was given new emphasis and it was laid down both that the environment should not be sacrificed and that the gap between town and country had become unacceptably large. The concept of Xiaokang was declared to be central: it means that it is "necessary to bring about a relatively prosperous society for the great majority of the people". It may take 50 years, but a major step forward must be taken during the period 2001 – 2020. In order to bring it about China's GDP must be multiplied fourfold.

The new government has put forward a ten-point programme of reforms to be carried out during the next 10 years. The programme objectives are to:

- maintain economic growth
- modernise China's agriculture
- take measures against unemployment and under-employment
- reduce income disparities

The China of the future

- improve environmental protection
- promote social stability
- reinforce and accelerate political reforms and encourage the growth of civil society
- improve justice by means of reform of the judicial system
- manage the problem of Taiwan
- ensure a peaceful regional and international media situation for China

Maintaining economic growth also means changing growth. It is hoped in time to reduce reliance on foreign investments and to a greater extent employ domestic capital on the Chinese market.

Political openness?

The centre of gravity in China's reform process has always lain on the economic plane. It looks as if that will also be the case in future, even if certain changes are taking place at the political level too. There is a growing insight within the Party that policy must develop in step with developments in society. Standing still politically would pave the way to growing social tensions. Among the intellectuals within the Party a relatively open discussion is in progress and there are different opinions about the route to be taken to pilot society through the changes, which must come. But there is agreement that the social changes which will be necessary must take place with the Party as a unifying force.

Democracy on the Western pattern is thus not yet on the agenda, according to Börje Lundgren, the Swedish Ambassador in Beijing. The economic development in Eastern Europe has enabled the leadership to understand that the only way in which the Communist Party can attain legitimacy is by improving the living standards of the population. The worst imaginable scenario is a development resembling that in the Soviet Union, which is regarded as chaotic. Chaos is a state much-feared in Chinese culture.

Despite the fact that a Western democratic system is not regarded

as being suitable to Chinese development, some processes in a democratic direction have been introduced. One is to develop the Party's internal work in the direction of greater openness and among other things the Party has been opened up to new groups in society. Another is the elections which are regularly held in the 800,000 villages in China. Certain observers describe these elections as important democratic experiments, while others see them rather as a new way of strengthening the party's grip on the countryside. In some places, however, people have seized the opportunity and voted out bad leaders.

The question is how long it may take before China introduces some form of national elections. Today there is no election day, no opportunity organised by the state to choose national leaders in a general election. Some observers see a "bottom-up process" as the most likely; others see a process, which will be initiated at the national level. Some believe in a combination of some kind. There is, however, nothing to suggest that such a process lies in the near future.²⁹

From the world's workshop to the world's centre of ideas?

China's reform process and rapid economic development has taken place in parallel with an evident change as regards its comparative advantage. During the 1980s it was primarily resource-intensive and labour-intensive products with low technological content, which were exported. By the middle of the 1990s, the structure of exports had undergone a significant change in favour of traditional Chinese exports such as textiles, clothing and leather. Since then competitive strength has been improved still further and above all broadened to include more technologically advanced products. Most signs are that developments will continue in this direction and that China in future will be able to compete even within significantly more advanced sectors. Chinese

²⁹ Ljunggren, Börje (2004)

The China of the future

technological and research policy had as one of its most important tasks the building up of domestic capacity for high-technology products. The attempt has been made to raise China's own national technical competence, through a combination of foreign investments in companies and efforts to improve theoretical training.

One of the Chinese companies, which have been the most successful internationally, is the telecoms enterprise Huawei, which among other things is a competitor of Ericsson and Nokia. This company's goal is to become one of the world's five per biggest system deliverers and it aims to double revenues from sales abroad during the next three years. It is based in the Shenzhen special economic zone in southern China and one of the company's five research centres neighbours Ericsson in Sweden, at Kista.

According to Magnus Breidne who works for ITPS³⁰ in Beijing there is, nonetheless, a good deal still to be done before China can be considered a high-technology country. There is indeed no real Chinese high-technology, even though China manufactures many products with advanced technological content. The concept of high technology in many cases hides the fact that China for the most part imports the most important high-technology components and then assembles them in mobile telephones, cameras etc for which the Chinese themselves have manufactured the cases and simple components. A further sign that the Chinese are at a relatively low level of technology is that they have no patents on many of the products they manufacture. An example of this is TV sets. Despite the fact that China has a major share in world production of TV sets they do not have a single patent. The consequence is that 70 percent of the production costs of TV sets goes to the patent-owner (that is to say, to multinational companies). China has become ever more dependent on foreign technology.

30 ITPS, the Swedish Institute for Growth Policy Studies, a Swedish Government Agency responsible for policy intelligence, evaluation and various areas of official statistics.

One explanation for the difficulty the Chinese find in making advances in this area is, according to Breidne, their comparative inability to bring about innovations. The statistics on patents show that foreign companies predominate by a large margin. Other explanations are the low level of investments by companies in research and development, the lack of qualified personnel and a company culture, which among other things favours the short term and lacks faith in patents. Nor, until quite recently, have state investments in research and development been particularly large (0.6 percent of GDP in 1997, 1.3 percent in 2003). A further weakness is China's relatively poor capacity to provide more specialised training and education, particularly in the field of information and communications.

Despite these weaknesses China has evident strengths, which may enable it relatively rapidly to catch up with those countries, which today are, most advanced as regards high technology. First, there is the large number of trained technicians. In 2001 alone 465,000 students graduated from technical faculties in China. Secondly, the inflow of foreign investments will probably continue for a considerable time. A third factor is the national system of innovation, which despite its shortcomings, has an evident aim to commercialise the results of research.

Everything suggests that the Chinese have tired of the fact that the rules of the game are set by the major multinational companies such as Intel and Microsoft. For example, a number of major research programmes are in progress aimed at producing their own processors, as also to replace Windows by Linux-based software. In consequence, foreign observers begin to be anxious that the Chinese will to a greater extent begin to develop their own technical standards. Thanks to its huge domestic market, China has good chances of succeeding with such a project.

The China of the future

Will economic growth continue? Some risk factors

Unemployment and social unrest

China's huge supply of poorly qualified labour is one of the most important factors behind the successful transformation into the world's manufacturing great power. At the same time, this labour surplus represents a threat to sustainable socio-economic development. In the present situation it is difficult for the Chinese economy to soak up the surplus of labour.

According to some calculations unemployment in the countryside is very high, approximately 150 million people. The state enterprises also conceal a large number of unemployed. Because of the restructuring process that has been accelerated by membership of the WTO, the state enterprises must shed about 5 million workers during the next few years – at the same time as the demand for labour in the countryside is falling dramatically. China moreover faces a demographic shock, which means that the population in the age brackets 15-65 will increase, at least until 2015. This population shock in itself implies that the Chinese labour market will increase by a number equivalent to three times the German labour market. The political task of creating such an extremely large number of new jobs does not look easy.

An unresolved question is also how the market for the goods, which Chinese workers manufacture, will develop in coming years. The most important is the domestic market, but with the proportion of exports amounting to 30 percent of GDP the world economy is also of very great importance for Chinese labour. Without the enormous foreign demand for Chinese goods, the economic miracle would be stricken by severe unemployment and poverty. In view of China's unsatisfactory social insurance system, there is a serious risk of increased social unrest in such a situation.

Shortcomings in the financial system

Another major threat to the development process is probably the

poor results in the banking sector and its strong links with state enterprises. The banking sector is very successful in attracting savings but the allocation of these resources to the investment projects of the state enterprises is not very effective. The banks are still forced to finance projects, which are regarded as socially necessary but which do not give any commercial return. So long as the system remains as it is, the state enterprises do not need to concern themselves very much with whether they are profitable, and the banks have no incentive to direct and limit their credit measures. The consequence has been that a large proportion of the credits, which the banking sector allocates, go to ordinary loans, many of which risk becoming bad debts. There are estimates that the cost of this haemorrhage from the Chinese banking sector was as high as 30–58 percent of China's GDP in 2000 and 41 percent of GDP in 2003.³¹

There have been several reforms of the banking system with a view to tightening up the rules on loans, but these attempts have remained no more than half-measures, since they have been hindered by local loyalties between banks and enterprises.³² In order to reform the banking system it is necessary to distinguish between political loans and commercial banking activities. Even such a measure would however be far from sufficient. Other necessary measures if the banks are to be managed on a commercial basis are that well-thought-out demands must be made upon them and that they must create systems for risk-assessment. State enterprises must also be required to operate in accordance with commercial conditions. They are not only the biggest recipients of credit but also responsible for the majority of the loans which are never repaid.

The energy shortage

A major problem in the Chinese economy is the lack of energy. Growing industry consumes enormous quantities of energy and

³¹ European competitiveness report (2003)

³² Sandklef, Kristina and Kiesow, Ingolf (2004)

The China of the future

raw materials. Last year, demand for electricity exceeded supply, making it necessary to ration electricity in 27 provinces. This had serious consequences for many companies. In a number of areas power was switched off with only a few hours' warning, which resulted in large quantities of goods in the course of production having to be destroyed. In Shanghai and Canton enterprises were encouraged to give their employees extra holidays so that production could be shut down.

The Chinese economy is the least energy-efficient in the world – it consumes 2.4 times more energy for every GDP-dollar than the world-average and China is the world's second largest importer of oil after the USA. In 2004 the government established the target of reducing energy-dependence and saving energy, particularly in heavy industry. This target will demand large investments in energy-efficient technology.³³ To solve the shortage of energy, nuclear power will play an ever greater role. There are currently nine at nuclear power stations, but in the next few years 48 new ones will be constructed according to decisions by the Chinese leadership. By 2020 China's nuclear power capacity will be at least six times greater than it is today.³⁴

Environmental pollution

In time, economic growth will probably be affected by the extensive environmental pollution, which occurs in China. Until now there has been great wastage in the exploitation of natural resources. For example, the price of water is very low, with the consequence that China is one of the world's biggest consumers of water. At the same time there is an acute shortage of water in northern China. Water is also highly polluted. 75 percent of the water in the rivers and lakes is unusable as drinking water or for fishery and cannot even be used for artificial irrigation. Other environmental problems are air pollution as a result of coal-

³³ Swedish Embassy, Beijing (2004)

³⁴ Dagens Industri 12-04-2005

burning, industrial effluent and increasing use of cars; the over-exploitation of cultivated land, which can affect agricultural production in the longer term; and deforestation and erosion, which leads to flooding etc. Seven out of ten of the most polluted cities in the world are Chinese.

The new Chinese leadership has recognised the problems of environmental pollution and environmental questions are included in the ten-point programme mentioned above. Whether these measures will really lead to improvements in the rapid pollution occurring now, is difficult to say. As in many other areas, there are clear environmental laws and regulations but they are not respected. Very often economic growth is given higher priority than concern for the environment, particularly in the poorer areas.³⁵

Consequences of the "one-child policy" – a rapidly ageing population

In the 1950s and 1960s Chinese women gave birth to an average of 6 children each. The "one-child policy" was introduced in 1979 as a method of limiting the rapidly growing population. This policy meant that each couple were allowed to have a maximum of one child, with certain exceptions. After 1984 the rural population were allowed to have several children, because of their greater need for labour and for help in their old age. In certain provinces families whose first child was a girl were permitted to have one more. The possibility of having three or more children is still very limited. The policy is maintained through a system of high fines for couples who infringe the family planning laws.

Thanks to the one child policy, the birth-rate rapidly diminished, falling to 1.8 in 2000. This has, however, had unexpected structural consequences – there is, for example, a major imbalance between the number of women and men. According to the census

³⁵ Sandklef, Kristina and Kiesow, Ingolf (2004)

The China of the future

in 2000, 119.9 boys are born for every 100 girls. In the countryside, where sons are a prerequisite for security in old age, the differences are significantly greater than that. The position of sons is deeply rooted in Confucian tradition and in the patriarchal Chinese family system. It is the sons who carry forward the family traditions and old parents live with their sons. However the sexual imbalance is greatest among newborn in the more prosperous regions of southern and eastern China, and in the central parts of the country. Here the peasants have access to modern techniques for embryo diagnosis. Sexually-related abortions are significantly cheaper than paying fines.

The one child policy means also that China faces the same demographic problems of an ageing population as do other industrialised countries. The difference is that the process will take place much more rapidly in China. The peak is expected to occur around 2050, when it is estimated that 24.3 percent of the population will be over 65 years.³⁶

³⁶ Ying, Hong (2004)

“The spoilt children...”

The one-child policy has created a generation of children in the Chinese middle-class who are given a great deal of attention and who are often terribly spoilt. The whole focus of the family is placed on this one child and much is written in the newspapers about the problems of spoilt children. Many are very self-centred and unable to take any initiative of their own when it is time for them to manage for themselves. They are accustomed to decisions being taken by their parents who provide them with everything, ranging from giving them money, to deciding what to they are to do every day, and ensuring that they are delivered to where they need to be. The question is how this generation will be able to take responsibility for society when they can scarcely manage to take responsibility for themselves. Will they care about other people at all?

At the same time these children live under great pressure to succeed in life. According to Chinese tradition, old people are looked after in the home by members of the family or relations and there is much to indicate that this tradition will continue. It means that it will be the single children's task to provide for and look after their parents as pensioners. Every young couple will need to look after four old parents.

If they are to be able to manage this financially, they must have a good education, which leads to well-paid work. In a country where there is extremely strong competition for good educational opportunities it is not unusual to find children who are seriously stressed even at the age of six after studying all their waking hours in order to pass the entrance examination for Primary Schools. Children early learn that it is not acceptable to make mistakes – the consequences of mistakes are all too serious. If they are not successful in the Primary School it is difficult to obtain a place in a Secondary School, and then it is most probable that they will also fail the entrance examination for the High School. That means in practice that they are excluded from the good universities. And without a degree from a recognised university one has failed for good in the New China.



Svenska Metall and developments in China

Contacts with the ACFTU and other unions

Two fundamental questions for the international trade union movement are what we can do to contribute to strengthening workers' rights in China, and what attitude we as organisations should have to the state-controlled trade union movement ACFTU. Above all the latter question has been, and remains, controversial. Some are of the view that by our contacts and exchanges with the ACFTU we contribute to legitimising the undemocratic regime.

In contrast to many other trade unions, Svenska Metall early adopted a pragmatic attitude on this question. When the inflow of foreign investments to China, from Sweden among other countries, accelerated at the beginning of the 1990s, Svenska Metall drew the conclusion that increased contact with the Chinese union was necessary - not least it was important to learn about the way in which conditions were developing in the Swedish companies. It was also important that the Chinese should be given the opportunity to build up their knowledge about trade union activity in multinational companies. Since then Svenska Metall, together with Sif (the Swedish white-collar union) has been running a bilateral project with one of the member unions in ACFTU. The project is being run at Swedish companies which are established in China and its objectives are: to teach the Chinese trade union organisation about trade union work on the working environment at both large and small places of work; to establish collective agreements; and trade union work in multinational enterprises, with an emphasis on democratic principles and forms of work.

Over the years a number of exchanges have been conducted both with the Chinese central organisation, ACFTU, and the branch unions where those who work within the metalworking industry are organised. The purpose has been to increase knowledge about workers' conditions in China and to hold a discussion on

Svenska Metall and developments in China

important questions such as trade union and human rights. These exchanges were based on the assumption that we could take up all sorts of questions without any form of censorship and this has indeed proved possible. The hope is that these contacts and attempts to develop the present trade union work will of itself stimulate new knowledge and views which in time can contribute to a process of reform within the Chinese trade union movement. Whether this vision is realistic is debatable, but Svenska Metall's conclusion is that contacts with the ACFTU are one way in which to contribute to an improvement in conditions for China's workers and hence to combat social dumping.

In addition to the contacts with the ACFTU Svenska Metall has continuing contacts with the Hong Kong-based organisation HKCTU. This is a small trade union organisation with limited influence, but it contributes to increasing our knowledge about the situation of those employed in China. As we see it, it is an important complement to contacts with the Chinese trade union movement.

Other ways to influence the conditions of Chinese workers

Over and above the bilateral contacts between the Swedish trade unions and the ACFTU, Svenska Metall is pursuing within the framework of the International Metal Federation work on bringing about international framework agreements in the multinational concerns where our members work. The purpose of these agreements is to ensure fundamental rights for all employees, irrespective of where in the world they work. This is something, which is of importance both for us and for many companies. In recent years consumers and investors have more and more demanded that companies should pay heed to ethical, social and environmental concerns. It means that companies who are jealous of their image are beginning increasingly to reconsider their actions in these fields.

Svenska Metall and developments in China

One result of this development is that many companies set up their own codes of conduct in which are laid down various social, ethical and environmental principles about how companies and their sub-contractors are to act. Sometimes these codes come about purely for PR or marketing objectives but we must assume that, as a rule, the companies have a real interest in living up to them. One problem with codes of conduct, which companies establish of their own initiative is, however, that it is difficult to achieve credibility when no independent party can check that they are honoured.

In an international framework agreement, on the other hand, the company negotiates at the global level with the employees' trade unions about what rules are to apply. Implementation and supervision then takes place locally where the company is active. That means that there is a clear control mechanism, which is of benefit to both the company and its employees.

The starting-point for the agreement is the core conventions of the ILO. Over and above these the company must offer its employees decent wages and working conditions as well as maintaining a safe and hygienic working environment. In addition the companies undertake to require their sub-contractors to live up to the above principles. In order to establish the agreement, the co-operation is required of local trade unions at the places of work.

Today there are 34 international framework agreements between global trade union organisations and international enterprises. Examples of Swedish companies with such agreements are IKEA, H & M, SKF and Skanska. Experience with these companies is in general very positive, despite the fact that the agreements are so-called "gentlemen's agreements", that is to say they contain no sanctions against companies which do not observe them. The companies also regard the agreements as positive since it helps them to ensure that company policy is observed as well as contributing to creating a positive PR value. Svenska Metall's

Svenska Metall and developments in China

objective is therefore to conclude as many agreements as possible with international concerns in which our members work.

What do international framework agreements contain?

- The right of free association and to collective bargaining
- No discrimination
- No forced or child labour
- Fair wages, reasonable working times
- Decent working conditions
- Responsibility for sub-contractors
- Joint supervisory mechanism
- “Gentlemen’s agreements” – no sanctions

One problem in China is the absence of control mechanisms, since it is impossible for companies to allow their workers to live up to the first item - the right of free association. Serious enterprises usually succeed in living up to their own rules in their own plants. As regards sub-contractors, on other hand, things are more difficult. Even if companies do what they can to check that the conditions are being observed, many sub-contractors in China seem to have developed sophisticated methods for pulling the wool over the eyes of accountants and inspectors. In consequence there are serious infringements of the workers’ rights, particularly among the exposed migrant workers.

Despite these evident problems the international framework agreements are an important method of promoting the interests of workers, even in China. The mere fact that there are rules - even if they are voluntary - about how companies should behave, means that they can be exploited to put pressure on the companies. In a number of cases it has been shown that consumers in the West have significant power in such contexts.

The challenge of China – some conclusions and reflections...

This report makes no claim whatever to be complete in its description of China and the development taking place. If there is anything, which one immediately sees on a visit to the "Middle Kingdom", it is how complex are this country and its culture. Seen through Swedish spectacles certain aspects of Chinese society seem particularly alien. It is necessary to try to put events into a Chinese context, which is not always very easy. This report is based to a large extent on discussions and interviews with, apart from Chinese themselves, people with long experience of having lived in Chinese society. We hope that this contributes to giving a somewhat more nuanced picture of what is, just now, the world's most dynamic country.

It is difficult not to be impressed by the enthusiasm, which reigns in the country and the extremely rapid development, which is in progress. It is with great and justified pride that the Chinese tell about the progress made in recent years and what it has signified for large parts of the population. The last two decades have meant a markedly improved standard of living even if it varies greatly in its extent.

However it is impossible to ignore the serious infringements of human rights which daily occur there. This relates to fundamental freedoms such as the right to democracy and hence the possibility to organise in trade unions and to be able to vote for whatever political representative one wishes. It applies also to work-related rights such as the right to decent wages and working hours, as well as a safe working environment. China has also an unflattering record as the country, which carries out 90percent of all death sentences in the world.

How can it be that the Chinese people do not rise up against a leadership, which so evidently infringes people's rights? Part of the explanation is of course the severely repressive way in which society is governed – attempts to think differently are simply not allowed. Another explanation is perhaps also that, as long as the

The challenge of China...

Chinese leadership continues to show progress in economic development, it can legitimately continue its policy. The Chinese are in general very nationalistic and many feel great pride over what has been achieved. The day that major disruption arises in the economy, there will however be an obvious risk of social unrest – a matter of which the Chinese leadership appears to be very conscious.

However, even at the political level there are changes in a positive direction. People feel that their daily life is much less controlled than it was only a decade ago. Provided one does not get involved in questions, which risk challenging the Party's position, the opportunities to make one's own decisions are relatively great.

The economic development has meant not least that the contact surface with the outside world is now broader. That also affects internal political and social developments. There appears to be an understanding within the Party that China must gradually develop in the direction of greater freedom, even politically. That said, democracy on the Western model seems unlikely, at least not in any short-term perspective. Within the Party there is great fear of losing control, which is perhaps not so difficult to understand if the size of the country is taken into account as well as the consequences an upheaval of any kind could have. Chaos is the worst imaginable scenario, not only among the Chinese leaders, and developments after the collapse of the Soviet Union are often held up as a deterrent example.

The question is how long will the positive development of the Chinese economy continue. There are a number of factors, which may constitute serious risks of a setback, not least increased social unrest. However, the majority of forecasts point to a gradual tailing off in the Chinese economy, rather than any sudden and deep fall.

The industrial perspective...

In recent years many job opportunities have disappeared in

The challenge of China...

Sweden and the rest of the industrialised world. In the debate which is being conducted it is easy to form the impression that the majority of these jobs have disappeared to low-wage countries like China, which gives rise to questions about Sweden's future as a producer nation and an industrial country. Is there any possibility to continue with production in Sweden and the rest of the Western world in future?

It is perhaps impossible to answer these questions, but the debate about where companies locate their production plants often tends to be over-simplified.

One explanation of this simplification may be the lack of perspective. It is no isolated event that companies move their activities to those places in the world where they are most profitable. It is rather the result of the globalisation of recent decades and, above all, of the ever more open trade and changing competitive situation of companies in recent years.

Globalisation has in many ways changed the conditions for industry. In the first place, cheaper transport and the rapid development of IT and communications have meant that the geographical distances between companies and their customers has become of less significance. This development facilitates international co-operation and setting up new facilities, at the same time as it creates great opportunities to specialise production and carry it out where it can be most cost effective. The consequence has been that different parts of the value chain, from raw material to finished products, can be carried out at different places within the same company or by different companies. At the same time, capital has become almost wholly mobile. That means that investment capital can readily find projects and areas where the expected profit is at its maximum. That has created a completely new dimension in global competition. Previously competition took place through trade, between industries located physically in different countries. Now instead countries compete with one another about where companies are to choose to locate their activity.

The challenge of China...

Free trade agreements and de-regulation have also meant that new actors from, among other places, Asia and Eastern Europe have emerged, including China after it joined the WTO in 2001.

How common is it then for Swedish jobs in industry to move to China and other countries with low wages? Even this question is impossible to answer for sure. There is a lack of reliable statistics and it is often not clear what is really meant by the concept "moved". The majority of studies being carried out in Sweden and other countries indicate, however, that only a minority of the job opportunities which have disappeared within industry did so because the activity has been transferred to other countries. The causes of disappearing jobs are instead, in the first instance, productivity developments within industry and hence they are a natural part of the industrial restructuring process which takes place in industry in the whole Western world. The major companies almost always have more manufacturing units (factories) than they would regard as optimal. That is a result of their having earlier bought up companies for the purpose of entering new markets and, in so doing, having acquired one or more factories they no longer need. The opportunities for radical restructuring of production and increased gains in productivity are therefore always tempting. Global competition and technology make possible, and thereby compel, increased re-localisation to places where there exist major opportunities to take advantage of local conditions of competition, including low wage costs.

Why is China accorded so much space in the debate just now? Sweden and other industrialised countries have earlier coped with surges of imports from Japan, South Korea and Mexico without any major problems, and the development in China has been going on for two decades now.

There are a number of important factors, which distinguish today's situation in China from other rapidly growing economies. Such a factor is of course the size of the country. In step with the

The challenge of China...

increase in prosperity the Chinese also can afford to consume. In consequence, China is in the course of becoming the world's biggest domestic market for products such as cars, household appliances and mobile telephones. That gives China incomparable advantages of scale. The scale also means an enormous pool of labour, both skilled and unskilled. Every year more than 400,000 students graduate from the technical faculties, while the poor stand in a queue for a low-paid job in one of the growth regions. China can therefore compete on the basis of both cheap labour and advanced technology. Another important difference is the speed of the economic development. Previous competitors have required much more time to reach the situation in which China finds itself today, which means that the rest of the world finds it difficult to keep up when the huge quantities of cheap goods which China exports hit the market.

There are principally three categories of Swedish companies, which choose to locate their activities in China. The first category goes to China as part of a global strategy aimed at penetrating the growing market and its potential. AB Volvo's new production of trucks in Jinan is such an example.

The second category consists of companies which have previously exported to China, but which must shift production there in order to retain their customers. Here the sub-contractor Tradex constitutes a typical example. Production in China is a condition for their continuing as a supplier to Sony-Ericsson. That is not only because the client demands security of supply, but also because the Chinese authorities require local content of at least 30 percent in key production business. The first company, which moves, in this case Sony Ericsson, thereby sets off a chain reaction among the sub-contractors.

The third category includes companies who have trimmed their organisation as far as they can, but who still cannot meet the competition. That is often a result of the fact that their competitors

The challenge of China...

have either moved their production or use sub-contractors in low-paid countries, which puts downward pressure on prices. For these companies, transferring to China or other low-wage countries seems the only solution.

As regards the third category of companies, the result is often that production in Sweden is closed down and that job opportunities disappear from Sweden.

What happens in the first and second categories of company need not, on other hand, be negative for Swedish job opportunities - rather the reverse. There are a number of examples where success in China makes it possible to increase production and hence job opportunities in Sweden. By moving part of the operation to low-wage countries, and thereby achieving cheaper production, the company's survival can be ensured. Additional resources can be devoted to development and the production of advanced products.

Establishment in China in that way becomes a means of retaining jobs in Sweden. By manufacturing a cheaper product in another country, new market segments can be penetrated. Volume production of cheaper products, at lower standards of quality, can be sold to customers previously not available to the company. The localisation of business in a new country or a new part of the world thus becomes a means of strengthening business in Sweden.

In the future we will perhaps have to accept that certain kinds of work will not be carried out in Sweden or in the rest of Europe. That applies primarily to work which requires a large input of labour and where we cannot, or do not wish to, compete on wages. In order to exploit the advantages brought by globalisation and structural reform it is important in that situation that those who lose their jobs are quickly assisted to find new jobs in other parts of the economy. In this Metall has an important task in facilitating people's ability to adapt to new jobs - that applies both to improving their skills and to geographical and branch adaptation.

.. and the trade union perspective

From a trade union perspective the development in China is also a challenge on other fronts, and not just as regards our own jobs. We also have responsibility to try to improve conditions for Chinese workers. The question is how that is to be done when our usual tools do not always work? The lack of independent trade unions means evident problems when it is a matter of the international trade-union movement's capacity to affect the situation at Chinese places of work. This fact does not, however, mean that we can relax and content ourselves with regarding developments from the sideline. Instead, we must take the opportunities that exist, however modest in scale, to affect the situation of workers in China.

One such way is to continue contacts with the trade union that exists, despite the fact that it is controlled and governed by the Party. There is a clear wish from the trade union side to learn more about our way of working as regards the working environment, safety and how to conclude collective agreements. This interest ought in future to be exploited also for discussion of our view of human rights and democracy. Continued support for voluntary organisations and independent trade unions outside China which work for a democratic development are also a way to attempt to exert influence.

Further, we must not forget the opportunities, which exist to influence international and Swedish companies conducting business in China to live up both to their own codes of conduct and to international and Chinese legislation. Here there are opportunities to act both as a trade union organisation and as consumers.

We also see that the inflow of foreign investments creates opportunities for a positive development for Chinese workers on a number of fronts. The increased demand for well-qualified personnel means that people will seek better conditions. It can also, in time, mean calls for the possibility of organising trade union re-

The challenge of China...

presentation vis-à-vis the companies. Such a development probably has the greatest chance of being successful if it occurs from below, that is to say with the starting-point in the workplace. At the national level there is not much to indicate that a trade union will be able to play an active and progressive role in democratisation. Another conceivable effect of the increasing proportion of foreign companies is that trade unions may be given the opportunity to create a more independent position for themselves when it is in the first instance no longer the state, but foreign companies which are their counterpart.

In the current situation, isolating China hardly seems possible. Instead we should endeavour as far as possible to exploit China's wish to open up to the world outside, in order to broaden and deepen economic and social contacts. In that way a need can be created for more democracy in China. In the last resort, changes in Chinese society must be brought about by the Chinese themselves and it is the democratic forces in the world which have the most to gain from such a development.

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