

China on the verge of unemployment explosion

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Four years ago, the former World Bank President James Wolfensohn warned Chinese leaders that they had to address the widening social gulf between rich and poor. "That way," he said, "unlike the French [aristocrats], you will not be taken to the guillotine on July 14." The idea that the French Revolution could occur in contemporary China may have seemed farfetched at the time when the economy was experiencing an unprecedented boom—expanding at more than 10 percent each year.

Wolfensohn's warning can no longer be considered an exaggeration. After 30 years as a giant cheap labour platform for the world's major corporations, China cannot avoid being dragged into the greatest financial crisis since the 1930s. With the economy slowing rapidly, unemployment is set to skyrocket and social discontent will explode.

Zhou Tianyong, a researcher at the Central Party School in Beijing, warned of the consequences of growing job losses in an article in the official *China Economic Times* on December 4: "The redistribution of wealth through theft and robbery could dramatically increase and menaces to social stability will grow. This is extremely likely to create a reaction of mass-scale social turmoil".

Significantly, Zhou dismissed the current official urban unemployment rate of 4 percent, insisting the real figure was 12 percent this year and would rise to 14 percent in 2009. These forecasts, he said, were conservative, based on evidence that one third of small and medium firms have gone bankrupt and that large enterprises are cutting costs by displacing workers with machinery.

Zhou estimated that in China's labour intensive economy, every 1 percent fall in growth translated into the loss of 8 million jobs. GDP growth rate in the last third quarter was 9 percent, down from 11.9 percent last year. That is equivalent

to the loss of 24 million jobs.

Zhou estimated that the decline of exports alone would cost about 12-20 million jobs. He pointed out that global demand for Chinese goods was unlikely to increase for a protracted period. He warned that the US could be entering a decade-long slump and that Europe and Japan were unlikely to recover before America.

Economic growth in China is widely predicted to fall below 8 percent in 2009. While the figure appears high in comparison with many economies, many analysts regard it as the minimum necessary to absorb the millions entering the workforce every year. The demand for labour was declining even before the current crisis. State enterprises have been slashing about 3 million jobs every year and workers are being displaced by machines as labour costs rise.

"In terms of urban labour supply from the rural areas, there are more than 3 million rural graduates looking for a job in the cities, 3 million landless peasants moving into the urban areas and 4 million farmers looking to make a living in towns as they earn too little from growing grain, making a total of 10 million. Within the cities, new workers and those needing reemployment due to corporate bankruptcies, mergers and restructuring, and past redundancies add up to at least 12 million. Added together, the two figures mean that 22 million urban jobs need to be created every year," Zhou wrote.

China's underdeveloped service sector cannot absorb the unemployed. Only 32.4 percent of the workforce is employed in service industries—15-20 percent below the global average, due to the country's vast rural population and low income levels. China's dependency on manufacturing means that without exports, the country faces falling prices, swelling inventories and rising factory closures.

Nor can Beijing's stimulus package solve this crisis of overproduction. With measures now totalling 18 trillion yuan (\$US2.6 trillion), it is not clear how the government is going to foot the bill. Given that 80 percent of the stimulus package has been allocated to infrastructure projects, some analysts, including Zhou, fear any boost to employment will end as soon as construction is finished.

Pointing to the looming social crisis in the countryside, Zhou estimated that 80 percent of rural incomes are dependent on remittances from workers who have migrated to urban centres. Faltering exports and construction industries could eliminate the jobs of 15-30 million migrant workers, cutting rural consumption by 900 billion-1,800 billion yuan. Rising unemployment among urban workers could cut urban consumption by 800 billion-1,200 billion yuan. Falling domestic consumption will only compound the economic slowdown.

Zhou warned of looming social unrest among young migrant workers. An estimated 30 million will return to the cities after their annual visit home in the Chinese New Year in late January. But many will find they no longer have work. Unwilling to return to an impoverished rural life, they will congregate in transport corridors like rail and bus stations in major cities and become a significant source of discontent.

Protests are rarely reported in China, but tens of thousands of "mass incidents"—demonstrations, strikes and riots—take place every year. The last official figure was 87,000 in 2005, up from 58,000 in 2003.

With widespread lay-offs and rising unemployment, the current figure is likely to be far higher. Isolated cases of angry sacked workers and protests by taxi drivers reported in the Chinese and international press give a glimpse of widespread anger.

One significant incident took place on December 2. Hundreds of traffic police in Leiyang city in Hunan Province smashed the local Chinese Communist Party (CCP) premises in a demonstration over low pay. It is the first time since the 1970s that any police have been involved in protests, indicating the extent of social discontent.

The CCP, which has rested on police state methods ever since coming to power in 1949, has always been fearful of any movement of the working class. In the last great upheaval—the protest movement in 1989—the regime sent the tanks into Tiananmen Square precisely when workers

voicing their own social demands began to join students calling for democratic rights. According to recent estimates, about 100 million people, mainly urban workers, throughout China were involved in those protests.

The working class is now far larger and economically more powerful than 20 years ago. China's overall urban population has doubled from 295 million in 1989 to 600 million. Any opposition by workers would find a response among students, peasants and even soldiers. A Chinese Academy of Social Sciences study estimated that one million college graduates would not find a job this year. Demobilised troops, numbering several hundred thousand every year, are also regarded as among the most vulnerable to rising unemployment.

Michael Pettis, a finance professor of Peking University, recently told the *NPR* web site that there were only two ways out of China's economic crisis: "One way is the way it happened to America in the 1930s, where basically American overproduction collapsed. We could have that in China—China overproduction could collapse. China may try to protect it, by exporting more, but my fear is that that creates a trade war, in which case it will have to come back to China." Pettis pointed out US attempts to export its oversupply to Europe in the 1930s led to escalating trade conflicts and ultimately to World War II.

The CCP, which is terrified that a collapse of production will have revolutionary consequences, is desperately seeking to boost exports by undercutting its economic rivals. The problem is India, Vietnam and other Asian countries are doing exactly the same, pitting their "own" workers against their class brothers and sisters in other countries. The only solution for workers in China, Asia and internationally is to reject all forms of nationalism and unite on a genuine socialist perspective against the predatory activities of transnational capital and all of its political defenders, including the regime in Beijing.



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