China: Protesting steel workers halt plant privatisation

John Chan
22 August 2009

An angry protest by thousands of Chinese steelworkers last week forced the authorities to suspend the privatisation of the state-owned Linzhou Steel Corporation in Henan province. Some 3,000 workers held a government official hostage in the factory for four days.

The incident took place just three weeks after protests by 30,000 workers at Tonghua Iron and Steel in northeastern China, in which workers killed an executive appointed by the private owner. These militant demonstrations point to the growing antagonism between the working class and the Chinese regime amid a deepening economic crisis.

In the latest incident, 3,000 workers staged a demonstration at the Linzhou Steel plant on August 11, opposing a deal last month for the private Fengbao Iron and Steel Co. Ltd. to buy their firm for 259 million yuan ($US38 million). Although the Xinhua newsagency did not mention whether the protesting workers clashed with the armed police sent to the plant on the night of August 13, the published photos showed overturned police cars.

The workers together with supporters demonstrated and patrolled the factory gates for days. They dispersed last Saturday only after a local government mediation team agreed to call off the takeover. Workers then released Dong Zhangyin, an official from the local state-owned assets supervision and administration commission, who had been sent to oversee the takeover.

Henan's provincial Communist Party vice-chief Chen Quanguo and deputy governor Shi Jichun arrived at the steel plant to mediate the conflict, promising workers that they would receive a monthly subsidy of 550 yuan ($US80) until production resumed.

Xinhua interviewed two workers' representatives who pointed out that they had been demanding higher redundancy compensation and unpaid wages. Linzhou Steel was auctioned to Fengbao in July—the same day that Tonghua steel workers beat their executive to death. The new private owner of Linzhou Steel, Fengbao, offered workers only 1,090 yuan for each year of service as compensation for being retrenched. One worker explained on the Internet portal *Tianya.cn* that after working 20 years in the factory, all he received was 20,000 yuan (around $2,900) and a letter asking him to leave.

Established in 1969, Linzhou Steel has 5,122 workers and pensioners on its payroll, with 2,995 of them on the job before operations were suspended in March due to falling sales and financial distress. The workers alleged that the new private management would dramatically cut back the payroll and that the privatisation deal was vastly undervalued.

The official *China Daily* reported: "Most of the workers see the privatisation as a move to marginalise and 'sell them out' and to fill the pockets of the rich and the powerful." In March, 1,000 Linzhou Steel workers staged protests, blocking streets and shutting off the factory twice in opposition to the privatisation plan. Despite the workers' resistance, the firm was sold in July "without the workers' consent," *China Daily* noted.

An unnamed worker who had been working at Linzhou Steel for 39 years told the *China Daily*: "It's a classic model of how state-owned assets are lost in corporate restructuring efforts in China. All 40 years of Linzhou Steel's assets are now in the hands of a single person."

Linzhou Steel's assets, including subsidiaries, had a book value of 831 million yuan (about $121 million). However, the Puyang City state assets supervision and administration commission valued the company, which produced 400,000 tonnes of pig iron a year, at just 331 million yuan ($48.4 million). Even more absurdly, the commission valued the firm's cement facility (with annual capacity of 100,000 tonnes) at just 17 yuan or $2.50! Despite this vast undervaluation, the enterprise was sold for $10 million less than the commission's figure.

Workers were also outraged when their board chairman, Liu Junshen, a Chinese Communist Party (CCP) official, reportedly declared at a management meeting that the more the firm was in the red, the better it would be for selling it. According the veteran worker who spoke to the *China Daily*, the management “deliberately screwed up” the factory in order to justify privatisation.

The local state asset commission’s report falsely stated that Linzhou Steel employees “strongly demanded” privatisation. A worker told the *China Daily*: “No one among us has ever agreed to privatise or sell off the enterprises.” The state asset commission official that was held hostage by workers during last week’s protest, reportedly acknowledged that all eight state-owned firms he had helped privatise in Puyang City went bankrupt.

Fengbao Steel is owned by a rural entrepreneur, Li Guangyuan, who took over a former collective-owned enterprise in the 1990s by using his position as village CCP secretary. Li is a typical example of the type of rich peasant who became capitalists after the destruction of collective agriculture under Beijing’s regime’s “market reform” policy.

Through collusion with local authorities, including the use of police, Li evicted farmers and suppressed their protests. Li’s group is now one of China’s 500 largest private corporations, involved in the production of steel and automotive components. He has received many awards from the regime, such as “national labour model” and “outstanding rural entrepreneur”. President Hu Jintao and Premier Wen Jiabao have inspected his company. However, Xinhua admitted that Linzhou Steel workers had revealed that Fengbao “had a bad reputation for unpaid wages and lack of work insurance”—like many other company owners cultivated by the regime.

Suspension of the Linzhou Steel privatisation points to deep fears in the Chinese regime of the explosive social tensions being generated by the deepening economic crisis in China and internationally. The Henan CCP secretary Xu Guangchun has declared that officials on all levels must ensure there are proper consultations with workers during any privatisation, in order to maintain social stability.

A decade ago, during the previous round of privatisations, China’s expanding export sector and related industries were able to generate millions of jobs for migrant and laid-off workers. In 1999 alone, Beijing re-employed 4.92 million workers laid off from state industry. This is impossible today, given the extensive job losses caused by the global financial crisis. In the January-July period, foreign direct investment into China fell 20.3 percent from the same period last year. With all the country’s export hubs struggling, due to contracting demand in the US, Europe and other developed markets, Beijing is deeply concerned about the prospect of a nationwide rebellion by the working class.

After an unprecedented expansion during the past decade, China’s steel industry is now undergoing a massive restructure. In 2000 China’s steel output was 126 million tonnes. This year, the annual steel capacity has already reached 660 million tonnes. With domestic demand at just 470 million tonnes, the remaining 190 million tonnes is almost equal to the combined 2008 output of the US and Japan. This surplus production implies massive job destruction.

Many of China’s 1,200 steel companies are state-owned but unprofitable and regarded as obstacles to Beijing’s plan for the consolidation of the fragmented industry. The CCP wants to create five large steel conglomerates that would control 45 percent of the national output by 2011. This would better position the industry in iron ore price bargaining with international suppliers.

On August 13, Beijing announced a three-year moratorium on any expansion of steel production in order to curb rising spot market prices for iron ore. As of mid-August, China’s iron ore spot market price had surpassed $110 per tonne, up from $58 in April. The China Iron & Steel Association (CISA), which is negotiating contract prices with the big three global miners (BHP Billiton, Rio Tinto and Vale SA), has yet to reach a deal. CISA wants a price cut deeper than the 33 percent the big three agreed with other Asian steel mills.

The recent unrest among steel workers is one more sign that the global economic crisis is propelling broad layers of workers into struggle to defend their living standards and basic rights.