

BEIJING'S POLANYIAN GAMBLE

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Resumen

Este artículo explora las acciones llevadas a cabo por el gobierno chino para controlar la creciente inequidad. Tales inequidades surgieron a partir de la implementación de la apertura de la economía. El autor analiza la reestructuración del empleo al pasar de un sistema dirigido por el Estado, estable y centralizado a un esquema de mercado abierto, con toda la incertidumbre que dicho sistema implica para el individuo. La transformación rural de auto-consumo a un esquema asalariado también ha provocado tensión en las estructuras sociales y económicas. En este contexto, el artículo ilustra cómo las altas esferas del gobierno han actuado para mitigar los efectos de las políticas de mercado, principalmente mediante inversión rural, reforma fiscal, subsidios y ajustes en la política laboral. El autor argumenta que dichos esfuerzos aparentan haber sido exitosos en muchos sentidos, puesto que los conflictos entre el Estado y la clase trabajadora se resuelven, a partir del 2000, dentro del marco legal y no en las calles, como se hacía inicialmente. Aun así, el balance entre la política económica de libre mercado y el papel del estado centralizador parece endeble y tiene resultados inesperados.

Palabras clave: Estado, mercado, trabajo, Polanyi, China.

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Abstract

This article examines the Chinese leadership's efforts to address rising inequalities originating from decades of market-led domestic reform, undertaking a «Polanyian gamble» with policy measures. The author analyses the restructuring of urban employment from secure, State-sector jobs to an open-market free-for-all, with all of the insecurity it implies. The rural transformation from self-sufficiency to wage labour transition also brought upheavals in social and economic structures. The article offers the view that China's elites have acted to mitigate the effects of market policies in order to avoid working class rebellion, through rural investment, tax reform, subsidies and revised labour laws. The author argues that this effort appears to be successful in many respects, as worker-employer conflicts that rose quickly in the 2000s have increasingly begun to be addressed in arbitration, rather than in street-level demonstration or outright conflict with the State. Although successes are evident, the ultimate balance of deleterious market effects vs state policies toward alleviation remains tenuous, the outcome uncertain.

Key Words: State, market, work, Polanyi, China.

INTRODUCTION

At the end of the last Millennium, Peter Gowan (1999) wrote of Washington's «Global Gamble». He argued that the United States (US) was seeking to dominate the global political economy with the Dollar–Wall Street Regime a key mechanism in achieving this aim. By promoting neoliberal globalization and a new transnational order based upon it, the US would be able to reap the benefits of globalization but avoid the costs associated with it. At the beginning of the second decade of the new Millennium, the gamble looks to be a lost cause. The global financial crisis, with its epicenter in the US, showed that the US could not escape the costs of the global financialization it sponsored and the US economy has been weakened as it built up huge debts. The legitimacy of the neoliberal economic model is now questioned from Latin America to East Asia and the Wall Street–Dollar Regime discredited if not yet replaced.¹

In the course of a decade, the international order changed significantly. Gowan (1999: ix) wrote: «the United States has, so far in the 1990s, faced no significant threat or challenger». Such a statement could not be written today. Indeed, it is now impossible to escape from the deluge of books and magazine articles on «China's rise». Featured on the covers of *The Economist* and *Time* magazine, the subject of scholarly tomes, China has been described variously as «new colonizers» (Polgreen and French, 2007), «world rulers» (Jacques, 2009), or simply as «The Challenger» (Zakaria, 2009). Quick to emerge from the US–inspired global recession, the implications of «China's rise» for US and the world in general have garnered much attention. Barely a country seems to be unaffected by this tectonic global power shift; Washington's global gamble has failed and Beijing has been the major beneficiary.

But while many have focused on China's rising global presence, what is less understood and analysed is that Beijing is undertaking a

¹ *Sections 2 and 3 of this paper draw from Dong, Bowles and Chang (2010).

gamble of its own. It is not a global one but a domestic one. It is gambling that it can contain and address the social and political pressures unleashed by 30 years of market-led economic reform. This gamble started in earnest in the early 2000s with the ascent of the Hu-Wen leadership and sought to implement a set of institutional and redistributive policies designed to enable the Chinese transition to capitalism to continue without social implosion. It is this gamble, analysed and assessed in this paper, that is equally important as «China's rise» from a critical development studies perspective. It exposes the fault lines of the «Chinese model» and examines whether the dynamics of capitalist development in China will lead to continued growth or to sociopolitical conflict. This is, in the time of challenge to authoritarian regimes across the Arab world, an issue which calls for scholarly analysis; it is certainly one that has the attention of Chinese elites.

In the next section, I explain why this gamble is best described as a «Polanyian gamble». Section 3 analyses the broad contour of the strategy in the rural sector while Section 4 analyses the urban sector. I conclude in section 5 and provide an assessment of whether Beijing's gamble is likely to have a more successful outcome than Washington's.

A POLANYIAN INTERPRETATION

The unfolding of the market in China has been rapid and dramatic but it has also been heavily influenced by the government policy of «economic reform», which has set the parameters for market expansion. This has been the case not only for promoting the rapid development and intensification of market processes but also in attempts to control the outcomes of those processes.

This «managing the market» approach is suggestive of possible Polanyian processes at work. For this to be a plausible interpretation, a careful re-casting of Polanyi in the Chinese context is required. The changes occurring over the past 30 years in China certainly qualify as being a «great transformation» in their own

right. The expansion of the market has been used to facilitate the structural transformation of the Chinese countryside and the urban industrial sector. The rural economy has been transformed from a largely non-market self-sufficient sector to one increasingly reliant on wage labour, much of which is employed in the industrial sector. The urban industrial sector has been transformed from one based on secure state sector employment to one where diversified ownership structures and market pressures face the urban working class.

This multi-dimensional transformation of China has been facilitated by the expansion of the market. And yet, while there has undoubtedly been a progressive increase in the scope and scale of the market, and this has been a consistent thrust of government policy over the past three decades, this has also been a process that has spawned some kind of «counter movement». While there have been many instances of peasant protest and backlash and spontaneous strikes by industrial workers, it would be far too much to suggest that there has been an organized civil society counter movement. Indeed, while local spontaneous protests and grievances have typically been addressed, any semblance of organized resistance —a «counter movement» from below— has been swiftly destroyed.

But the constraining of markets can come from many sources and not just from civil society, from below. Munck (2006: 176) reminds us that a «counter movement» can also come from above, from «enlightened managers of capitalism» or from «reactionary backward-looking forces». Munck (2006: 184) approvingly quotes Evans that «elites, no less than the rest of us, need to resolve the Polanyi problem».

This clarification of Polanyi's message opens up new ways of interpreting changes in the China. It suggests a dialectic at work between the policy thrust to sequentially liberalize the economy and integrate into the global economy as well as a desire to manage this process to maintain social stability and prevent the worst excesses of an unregulated market. In China, with civil society effectively suppressed and confined to numerous but uncoordinated

acts of local protest and resistance, the main agents in this dialectic are state elites themselves using the institution of the state to both promote the extension of the market and to seek to regulate its workings —to «create a degree of sustainability for the machine they had created» (Munck, 2006: 180)— and outcomes. The «Polanyi problem» for China's elites is how to continue the capitalist transition and market expansion while maintaining social order in ways other than (only) resorting to repression; the Polanyian gamble is their strategy for doing so.

Of course, the Chinese state operates at multiple levels but, as a first mapping of this process, we focus here primarily on the policies of the central state. Here the rhetoric of the «harmonious society» promoted by the current leadership under Hu Jintao speaks directly to the need to ensure the social stability and sustainability of the reformed economy, making use of the market where possible but intervening to ensure equitable outcomes where necessary. It is this type of elite-driven Polanyian process that characterizes the Chinese leadership's outlook, especially under the new leadership.

This interpretive framework has been explicitly used to examine China's reform path by Wang (2008). He argues (2008: 18) that in the reform period «the Chinese moral economy was transformed into a market society» from 1979 to 1999 with market society emerging as the «dominating factor» by the end of this period. The problems associated with market domination, including «increasing social polarization between rich and poor (*exempli gratia* regional disparities, urban / rural divide, inequality within urban China, and inequality within the countryside)» required a change in policy and led to a «protective countermovement to re-embed the economy into the society» (*idem*: 21). He argues that this «countermovement» can be dated back to 1999 although «most social policies were introduced after Hu Jintao and Wen Jiabao took office in 2002» (*idem*: 22) with «protective legislation and other interventions [as] the characteristics of this countermovement» (*idem*: 47). Wang provides examples in both urban and rural areas of policies which have been introduced to reduce inequality and to provide

social security. In this way, he argues that China has moved from the initial reform period concentration on «economic policies» to one now which concentrates on «social policies».

Wang's basic argument is instructive. However, the temporal division which he suggests (*id est*, reforms prior to 1999 and afterwards) has some traction but the division he presents is too stark. In particular, the period since the turn of the Millennium has been one in which it is true that social protections have increased but it also one in which the expansion of the market has intensified with WTO accession. That is, the latter period has been one in which *both* market expansion and counter-movement have been promoted by government policy rather than one in which there has been a simple switch from one to the other. In the next two sections, I apply this framework to analyse the changes in China's rural and urban political economies.

The Rural Sector

The dismantling of the commune system in 1978 was the opening, albeit dramatic, salvo in a continued and protracted 30 year expansion of the market into the organization and coordination of the rural economy. The household responsibility system, which replaced the commune system, was followed by the expansion of off-farm rural industrial employment in Township and Village Enterprises (TVEs) in the mid-1980s. These enterprises were rapidly privatized themselves in the mid-late-1990s. At the same time, rural-urban migration became a major feature of the Chinese economy as tens of millions of peasants moved around the country in search of work. Then, in 2001, China joined the WTO in a move which further opened the agricultural and rural economies to the forces and logic of global capitalism.

These changes enriched many peasant households but sparked resistance from others especially those dispossessed of their land as local governments reallocated land to more profitable industrial uses with little regard to those farming it (see Guo, 2001). And

yet, despite the extension of the market into every facet of rural life, it has not been a process which has been wholly spontaneous or unregulated. In fact, quite the contrary. The central government has made conscious efforts to manage the process of rural market liberalization over the past 30 years. The Chinese state, far more than in most developing countries, has sought to manage the path of liberalization and globalization so as to both take advantage of the market and to constrain its more negative dynamics (see Naughton, 2007; Qian, 2003).

Prior to 1978, nearly three quarters of the Chinese population lived in rural areas and most of the rural residents were primarily engaged in agricultural production. Rural income was low with the majority of the rural population living below the dollar-a-day poverty line. Despite low levels of absolute income, the social protections offered by the commune system were extensive through the «iron rice bowl». The commune system also emphasized self-sufficiency over trade and so internal markets were poorly developed. This was the case for goods and for factors of production; with respect to labour, the household registration system (*hukou*) clearly separated rural from urban workers, a characteristic of a long-standing and enduring «urban bias» in China's policy formation, and intra-rural labour mobility was also highly constrained (Cheng and Selden, 1994). The role of the market in rural China was, therefore, strictly limited and subservient to the political logic of Maoist planning. However, this socialist legacy did mean that the subsequent expansion of the market took place against a backdrop of assets such as land and education being relatively equally distributed by developing country standards (Lardy, 1983).

The economic reforms that began in 1978 were initially focused on agriculture with the liberalization of prices and a greater role for the market in allocating and rewarding labour, and consequent eroding and abolition of the previous commune-provided social protections, the main policy thrusts. The main policy objective in promoting the expansion of the market as the primary labour allocation mechanism has been to facilitate the transfer of surplus out

of the agricultural sector and into higher productivity industrial wage labour, thereby moving the rural economy towards fuller employment and higher earnings.

The first step was the implementation of the household responsibility system which significantly improved the work incentives of farmers and generated unprecedented growth in agricultural production and farm incomes between 1978 and 1984. Households were given limited use rights to land in return for fulfilling grain quotas. Output above this quota could be sold on free markets and led farmers to diversify into higher-value crops. Since the early-1980s, however, off-farm work has emerged as a main source of income growth for many rural households (Lohmar, 1999; Kung, 2002). From 1985 to the early 1990s, TVEs grew rapidly, providing jobs for nearly 120 million rural workers (Bowles and Dong, 1994). This marked the first large structural transformation of the rural economy as farmers were transferred from agricultural to industrial work within their home towns and average incomes rose as a result.

Since the early 1990s, rural-urban migration has become the most common way for rural labourers to get a job off the farm. It is estimated that in 1994 and 1995, about 80 million migrant workers went to the cities, a number which roughly doubled over the following decade. Consistent with the experience of industrial countries, this second large structural transformation which moved labourers from agricultural to non-agricultural activities and rapidly increased rural-urban migration, fueled sharp rises in labour productivity and income in China's rural sector. As a result, the proportion of the rural population living below the dollar-a-day poverty line fell sharply, from 65 percent in 1981 to 12.5 percent in 2001 (Ravallion, 2006).

While the transformation of China's rural economy is indisputable, there remain many challenges which government policy has sought to address. Farm size is small and agricultural productivity remains low. There have therefore been attempts, from the late-1990s onwards, at agricultural «modernization» which

have sought to increase production scale mainly through the government promotion of so-called «dragon head» agribusinesses which supply urban markets through large scale rurally-located agribusiness operations (in poultry, livestock and food processing). Government policy seeks not only to expand the market but to shape the forms that it takes. Zhang and Donaldson (2008) document how these enterprises have led to the development of agrarian capitalism with the rise of waged labour but conditioned by continuing strong norms of collective land rights which have led to a distinctive, and more egalitarian, form of agrarian capitalism than is found in other developing countries.

The development of rural industry, however, has been unbalanced and concentrated in coastal regions where the less-developed western regions experienced great difficulty generating off-farm employment with the result that inter-regional inequalities were exacerbated (Cai, Wang and Du, 2002). Moreover, while restrictions on labour movement were relaxed, the *hukou* system still deprived rural migrant workers of equal access to employment, health care and education. All of these problems were evident in the 1990s and the economic slowdown following the Asian financial crisis in 1997 created additional hurdles for rural economic structural change.

Against this backdrop, China's accession to the World Trade Organization (WTO) in 2001 marked a further stage in the transformation of the rural economy. This time the transformation was spurred not just by domestic market expansion but by greater exposure to international market forces as well. This intensification of market pressures further enhanced the role of the market in allocating labour and hastening the transfer of surplus labour into non-agricultural activities (Sicular and Zhao, 2004).

The legacy of inter-regional inequalities and rural-urban disparities which resulted from the liberalization policies of the 1990s were threatened with being further exacerbated by exposure to global market forces in the 2000s through WTO membership (Blum, 2002). The commitment to expanding market forces and allocation

mechanisms in the rural economy is common to both periods but, since the early 2000s, the further integration of the rural economy into the global market has brought forth responses from the central leadership attempting to manage this integration to counter the potential adverse effects on rural labour. That is, while the leadership has sanctioned and championed the extension of the market in the rural economy, it has also sought to manage this by securing distributional outcomes which will maintain social stability. A partial, limited and elite-driven (Polanyian) attempt to counter the unfettered market's potentially destabilizing effects is evident.

The 16th National Congress of the Communist Party (CPC) in 2002 announced that one of the main goals of the next decade was to increase income of rural households, continue to shift massive amounts of labour out of farming as a way of doing this, and ensure a more balanced growth between city and countryside and between the east and west regions. The aim was to manage the distributional outcomes of further market liberalization and globalization to maintain social stability.

The increased importance accorded to addressing the rural economy and to managing the impact of further marketization is reflected in «Number 1» policy documents (*yihawenjian*). This document is the first policy document the Chinese government issues each year and indicates the policy priority for that year. Since 1978 the central government has issued eight «Number 1» policy documents concerning rural development, five of which were issued in the early reform period from 1982 to 1986. The remaining three, however, were all issued after WTO entry in 2004, 2005 and 2006. For these three consecutive years, rural development was placed as the central government's highest priority. All three of the recent policy documents intended to address problems concerning agriculture, farmers, and rural areas.

The three Number 1 documents from the 2000s stipulate that governments at all levels adopt measures to raise rural income and reduce rural-urban income disparities. Included in the policy initiatives are: reforming the *hukou* system so that rural migrants

have more formal rights in the urban areas; increasing land tenure security; providing subsidies for grain production; reducing, and abolishing in 2006, all agricultural tax and rural levies, taxes which were regressive in nature and whose abolition has been estimated to raise rural household income by approximately 15 per cent per year; increasing off-farm employment and urban-rural migration; increasing infrastructural investment targeted at the poorest regions (see Zhang *et al.*, 2006); free 9-year compulsory education in rural areas (see Knight, 2008); and developing rural social programs such as the «rural health cooperative scheme» and rural pension program. This represents an extensive set of policy measures designed to both enable rural labour to engage in the market economy on better terms and to increase levels of social protection when they are unable to do so.

To sum up, the security of the previously collectivized sector is now but a distant memory for residents in rural China. In its place has come a relentless wave of marketization; the market has expanded its role in allocating labour and facilitating the transfer of labour from agricultural to non-agricultural activities, a process which has been the central leadership's main policy for raising rural incomes. However, as the inequalities arising from this process intensified, combined with rising levels of economic insecurity, the central leadership also sought to manage the distributional consequences of the market-led reallocation of labour within the rural economy. These policies have intensified since the 2001 WTO accession, as indicated by the designation of rural development as a Number 1 policy, for example.

To gauge the impacts of these new policies, to assess the extent to which the «counter movement from above» is succeeding, consider two sets of evidence. The first looks at trends in rural income distribution, the second looks at survey evidence on peasant attitudes towards government.

In Dong, Bowles and Chang (2010) we used data from the China Health and Nutrition Survey (CHNS) to construct a sample of 2,000 rural households in villages from the nine provinces for the

period from 1991 to 2006. The data from the survey demonstrate the extent to which the structural transformation of the rural economy has taken place over the past decade and half and its acceleration in the 2000s. In 1991 nearly three quarters of rural households had members who worked only on-farm. By 2006 this was the case for only 13 per cent of households. This decline was particularly dramatic after 2000 when the rural economy was further transformed by exposure to the logic of global market forces in the form of WTO accession—a change which made land-intensive farming less attractive and which led to a rapid rise in China's labour-intensive manufacturing exports. As farm employment decreased, wage employment rose dramatically fuelled by rising levels of migration. By 2006 over 40 per cent of rural households had at least one member working as a migrant worker in an urban centre and over 80 per cent of households had at least one member in waged employment (whether in rural agribusiness, rural industry or urban industry).

This reallocation of labour into higher-return activities was behind the growth of rural incomes over the survey period. In real terms, average household income in the survey increased by 90 per cent over the period 1991–2006. However, within this, real earnings from farming decreased while earnings from wage labour rose substantially.

To investigate the income inequality trends around this rising average, we can consider measures such as the Gini coefficient. The Gini coefficients reported in Table 1 suggest very little change in earnings inequality over the period; it is perhaps noteworthy that the dramatic structural transformation of the rural economy occurred without increasing earnings inequality, but it is also the case that the rapid growth of wage labour might have been expected to reduce earnings disparities.

TABLE 1
Earnings Inequality in Rural China

Year	1991	1993	1997	2000	2004	2006
Gini coefficient	0.480	0.459	0.438	0.476	0.434	0.461

Source: Adapted from Dong, Bowles and Chang (2010: 44).

As a summary measure, the Gini coefficient does not provide evidence of what is happening in the tails of the income distribution, a matter of policy significance and important for any assessment of income trends. To consider inequality further we also need to take into account non-labour incomes, which include remittances from long-term migrants, gifts, subsidies and asset income. The sample is used to construct income *per capita* for each income decile in 1991, 2000 and 2006, and these results, presented in Table 2, provide some startling evidence on the different fortunes of the richest and poorest households in rural China over the period.

The results show that between 1991 and 2000 the real income of the poorest two deciles decreased while that of all other deciles increased, with the rate of increase uniformly rising as income level increases. This suggests a clearly rising trend in income inequality. In the post-2000 period the pattern changes. In this period, all income deciles experienced rising real income growth. The average real income growth rate of the poorest decile was 5.7 percent per year although this was still lower than that of all other deciles, which now experienced similar income growth rates.

The post-2000 period corresponds to the large shift in labour allocation from farm to wage labour, itself a result of the structural transformations induced by globalization. More households were able to benefit from the higher incomes provided by the expansion of wage labour and this was the case for all deciles. In addition, this period is also the one in which government policy was particularly active in pursuing redistributive policies such as the abolition of the regressive agricultural taxes and investing on education and infrastructure in less-developed western regions.

TABLE 2
Per capita income by decile in 1991, 2000, 2006 in rural China (constant prices)

Decile	Income <i>per capita</i>			Annual rate of growth (%)	Change as percentage of the 10 th decile income increase	Annual rate of growth (%)	Change as percentage of the 10 th decile income increase
	1991	2000	2006	1991-2000		2000-2006	
1	327	264	371	-2.4	-1.9	5.7	1.9
2	451	427	744	-0.6	-0.7	9.2	5.6
3	584	627	1146	0.8	1.3	10.0	9.1
4	708	858	1554	2.1	4.5	9.9	12.3
5	841	1101	1966	3.0	7.8	9.7	15.2
6	990	1420	2547	4.0	12.9	9.7	19.8
7	1194	1810	3193	4.6	18.5	9.5	24.4
8	1469	2254	4002	4.8	23.6	9.6	30.8
9	1935	3111	5927	5.3	35.3	10.7	49.6
10	4565	7897	13575	6.1	100.0	9.0	100.0
No. of households	716	1,036	942	----	----	----	----

Source: Dong, Bowles and Chang (2010: 47).

Notes: Income is the sum of labour earnings plus assets income, various subsidies, and gifts and remittances of relatives and friends. Income *per capita* is measured in 1991 constant price.

These results show the impact on income levels and income distribution and indicate that the elite-driven counter-movement has had some success in the economic realm. To consider the impacts on perceptions of government and on social stability, the recent surveys reported by Michelson (2011) provide an instructive insight. He undertook surveys of 3,000 rural households in 2002 and 2010. His results are striking. In common with other surveys, he found that perceptions of the central government are more favourable than those of lower-level governments in both periods. However, what is of interest are the changes between the two periods. He found that the rural policies outlined above had a dramatic impact on changing perceptions of all levels of government, especially at the local levels. He reports that in the 2010 survey, 54 percent of respondents indicate that they felt relations between villagers and

village cadres had improved; less than 3 percent felt that they had deteriorated. His summary of the results is (2011: 20):

At the time of the original 2002 survey, rural China was a hotbed of discontent and unrest. Limited levels of public goods provision were sustained in large measure by unlawfully excessive taxation enforced by local state agents not infrequently exercising violence. Between 2005 and 2009 the central government rolled out a series of new policies designed to enhance public goods provision, raise income, mollify discontent, and improve state–society relations in rural China. By the time of the second survey in 2010, local governments, to varying degrees, had already implemented the various subsidy, social welfare, and public infrastructure programs (...) The surveys show that, so far at least, the policies have been generally successful. Information villagers reported in the surveys reflect dramatic improvements in public goods provision, household income, and state–society relations.

In the next section, I discuss whether such a conclusion can be extended to the urban sector.

The Urban Sector

The transformation of the urban industrial sector has been just as dramatic. Friedman and Lee (2010: 507) argue that

two historical processes have fundamentally transformed the worlds of Chinese employment in the past three decades: commodification and casualization. Both tendencies, driven by economic and political forces within and beyond China, have spawned a precipitous decline in labour standards and a palpable rise in labour discontent and unrest that is cellularized, localized and un-coordinated.

The influx of rural migrant workers into the urban industrial centres, together with the «restructuring» of many State-owned enterprises, has created new forms of an urban working class and swollen its numbers. Urban workers are increasingly placed at the mercy of the forces of the market and the behaviour of capitalist

firms. With little protection either legally or from the state-controlled monopoly trade union, the All China Federation of Trade Unions (ACFTU), it is no wonder that Chan (2001) characterized China's workers as being figuratively, and sometimes also literally, «under assault». Labour disputes and spontaneous worker protests rapidly became daily occurrences.

As evidence on the level of protest, Friedman and Lee (2010: 519) report that «the number of officially reported «mass incidents» grew rapidly throughout the early 2000s, eventually hitting 87,000 in 2005. While this was the final year that the government released such numbers, there were widespread reports that the number had jumped to an incredible 120,000 in 2008. The percentage of these mass incidents that are worker-related is unclear, but it surely accounts for a very significant share». Pun, Chan and Chan (2010: 138) report that there is at least one strike every day involving over 1,000 workers in the manufacturing centres of China's south eastern provinces.

The growing levels of worker unrest that accompanied expanded marketization following China's WTO entry met has, however, as in the rural sector, met with a response from the leadership aimed at providing a measure of societal protection from the worst aspects of the market's intensification. This has come less in the form of redistributive policies, as was in the case in the rural sector, and more in the form of legal changes. These have included a revised Trade Union Law (2002), the Employment Protection Law (2007), the Labour Dispute Mediation and Arbitration Law (2007) and the new Labour Contract Law, passed in 2007 and which came into effect in January 2008. The latter Law is the most prominent and is discussed further here. Designed to offer some additional protection and employment security to workers, the new Law is an attempt to mitigate class tensions and provide a basis for social stability. The underlying accumulation model has not changed but the Chinese leadership has shown itself to be reactive to rising discontent and flexible enough to respond to it policy-wise. Of course, the regime still tramples on any organized civil society or labour mobilization and incarcerates anyone brave

enough to lead or even be involved in it; but the regime does not only do this; it also seeks to mitigate through a «counter movement from above» with the new Labour Contract Law being a good example of this.

The Law is intended to provide increased employment security, limit the use of casual labour and make it easier for workers to obtain permanent contracts. The four main provisions of the Law, as Wang et al (2010:89) explain, are:

1. That the employee be given a written contract within one month of starting work; if this is not provided within one year, the worker will be automatically entitled to a contract in which no termination date is stipulated.
2. Any employee who has been employed by a firm for at least ten consecutive years is automatically to be given a permanent contract.
3. Support for collective bargaining by providing trade unions with new powers to «bargaining on an equal basis with the employer»;
4. new regulations and limitations on part-time work, «dispatch contracting» and overtime.

These provisions sparked widespread interest across China with the process of developing the new Law receiving close to 200,000 submissions (Wang et al, 2010:90). The aim of the government in introducing it was to provide workers with some protections and, equally importantly, by providing a legal framework which could institutionalize and de-politicize workers' protest. Even though the protections included in the Law were watered down in the face of business opposition, including from the American Chamber of Commerce in Shanghai, and the enforcement of the Law is, at best, patchy, nevertheless there have been some important changes in the levels of institutionalized labour dispute settlement.

The data on labour disputes which became official arbitration and mediation cases shows a large jump in 2008 as shown below in Table 3.

TABLE 3
Labour Dispute Cases Accepted 2002–2009

	2002	2003	2004	2005	2006	2007	2008	2009
Number of cases	184,116	226,391	260,471	313,773	317,162	350,182	693,465	684,379
Number of workers involved	608,396	801,042	764,981	774,195	679,312	653,472	1,214,328	1,016,922

Source: China Labour Statistical Yearbook, 2010 p. 418

This large increase between 2007 and 2008 —a doubling of the number of cases and number of workers involved in them— can be interpreted in two ways. The first is that it is a reflection of increasingly fractious labour relations as a result of deteriorating conditions brought on, in part, by the global financial crisis in 2008. It can also be interpreted, however, as a victory —of sorts— for the government's attempt to institutionalize labour relations. The aim, as Blecher (2010: 77) writes, is to drive labour disputes «from strikes and demonstrations in the factory and streets towards arbitration and mediation in government meeting rooms».

Of course, more likely is that both interpretations are valid although it is not possible to accurately gauge which one is dominant. We can speculate based on official figures the reasons for the disputes which are sent to arbitration and mediation. The impact of the global financial crisis might be expected to have the most immediate effect on employment security and thus on the termination of labour contracts. The data on the cases caused by termination of employment and labour remuneration are shown below in Table 4.

TABLE 4
Causes of Labour Disputes Accepted 2002–2009

	2002	2003	2004	2005	2006	2007	2008	2009
Labour remuneration	59,144	76,774	85,132	103,183	103,887	108,953	225,061	247,330
Termination of labour contract	30,940	40,017	42,881	54,858	55,502	67,565	139,702	43,876

Source: China Labour Statistical Yearbook, 2010 p. 418

The data show that the number of arbitration and mediation cases based on claims of unfair contract termination doubled between 2007 and 2008 perhaps as a result of the economic impact of the global financial crisis and the response to it by firms. However, this was a one-year blip with the number of cases based on contract termination falling sharply in 2009 back to pre-financial crisis levels. However, as shown in Table 3, the total number of cases did not decrease significantly at all. The number of cases brought by workers as a result of issues over labour remuneration (such as failure to pay the minimum wage, failure to pay overtime rates and claims for back-pay) continued to increase as shown in Table 4. In this respect, the increasing use of arbitration and mediation may be a more general reflection of what Wang et al (2010: 100) have described as «the dynamic sense of rights consciousness that China's new Labour Contract Law has engendered among so many of its constituents».

Thus, the government appears to have had some success in channelling labour disputes into legal channels as the explosion in the number of cases going to arbitration and mediation shown above illustrates. However, the new legal framework has also raised consciousness of workers' rights among the workers themselves. And here the government has been less successful and the new legal provisions did not prevent a new outbreak of highly publicized worker protests in the summer of 2010 at the Foxconn and Honda factories.

Both protests were led by migrant workers but their character was very different. The Foxconn protests took the form of that most individualized form of protest —suicide. 13 workers attempted suicide over three months with 10 ending in death. The suicides at the world's largest electronics manufacturer, which employs 900,000 workers across China, brought international attention to the plight of migrant workers in China's globalized factories and pressured the world's leading computer brands to address supply chain labour standards. However, as Chan and Pun (2010) argue, the «global labour regime» under which the young migrant workers in their millions fall, remains intact and

the causes of the despair which the workers felt remain in place.

The workers at Honda undertook a different form of protest: strikes. A wave of strikes at various parts' producers across China resulted in significant percentage wage increases for the workers although they remain low by international standards. Comparing the two protests, Chan (2010) observes that «the methods chosen by the workers to protest against their plight were very different —Foxconn workers committed suicide out of desperation, but despite consequential international publicity their co-workers did not seize the opportunity to organize themselves in protest. The Honda workers, on the other hand, were well organized, strategic and assertive, demanding sizeable wage increases, proposing a pay scale and a career ladder, electing their own representatives, re-electing office-bearers to their union branch and demonstrating solidarity and a determination to win».

These examples throw up a number of interesting observations. Firstly, the «working class» is still differentiated with multiple levels of class consciousness and organizational ability. Secondly, for the point of view of the government authorities, the two protests were not that threatening. The Foxconn suicides were an embarrassment to be sure but this type of individual action does not threaten the regime as a whole. In the Honda strikes, the government was quick to label them as «economic» actions and to refute that they had any political motivation. In large part, this is correct. As Chan (2010) points out, the workers did not call for an independent trade union to be set up to represent them but rather than the elections to the existing ACFTU be re-run so that representatives to this body could be chosen by the workers. The structural position of the ACFTU was not in dispute.

This discussion shows that the leadership's shift towards seeking legal remedies for worker grievances has had some impact although it may also have served to raise worker consciousness of their rights in ways which the government has been less able to channel. Where protests and strike action have taken place, however, reveals that the urban working class remains fragmented and incapable at present of mounting a political challenge to the regime.

CONCLUSION

China's political economy has undergone a «great transformation» over the past 30 years. The role of the market has been continuously and deliberately expanded over this period. In both the rural and urban sectors, the market has become the central allocation and organizing mechanism. The speed of this transition has been managed by the central government but its direction has never been in doubt. Each decade has brought with it new reforms aimed at pushing the market ever further and more deeply integrating into the capitalist world market. While this global integration has received considerable attention from scholars interested in the implications of «China's rise», from a critical development studies perspective of equal interest are the dynamics of China's transformation. In this article, I have argued that these have involved the leadership, especially in the last decade, taking a calculated gamble that it can resolve the «Polanyian problem» defined as how to protect society from market expansion.

As I have shown, just as the pace of «opening up» has been managed by the Chinese policy elite so has its effects. The market-oriented reforms, with globalization marking its latest phase, have been planned by the leadership through a multitude of policy initiatives. And yet, at the same time as this progressive unleashing of the market has been facilitated and encouraged, the central leadership has also sought to constrain its most deleterious social effects. This has been most evident since the early 2000s when the rural economy again ranked highly in policy priorities and when the current leadership's goal of building a «harmonious society» is premised on the need to ensure that the rural population reaps some of the benefits of the rapid growth sustained over three decades. Thus, policies to invest heavily in the poorer regions, to abolish agricultural taxes and fees, to increase tenure security and to continue with grain subsidies all point to ways in which the central government has sought to manage the markets' inequalizing tendencies on rural inhabitants. In the urban areas, increasing labour unrest was

addressed by the promulgation of new labour laws seeking to institutionalize and legalize labour relations; to make them a matter for the courts rather than for the street. In these limited and constrained ways, we can see a Polanyian dynamic at work at the elite level in China; especially so in the 2000s with the new leadership.

In these ways, the leadership is gambling that by implementing this «counter movement from above» it can avoid a «counter movement from below». Its success in this can be seen in several ways. In the rural sector, average real earnings have grown significantly and summary measures of income inequality, such as the Gini coefficient, indicate that the distribution of rural earnings around this rising trend was roughly constant over time. However, more disaggregated data including all income sources show that at the bottom end, real incomes decreased over the 1991–2000 period and that the incomes of the richest income groups grew the fastest. Post–2000 the pattern changed with all income groups experiencing real income growth with the growth rates being comparable for all income deciles except the poorest, which continued to lag behind. The survey evidence by Mickelson (2011) confirmed that state–society relations in rural areas in the 2000s seemed to become less antagonistic. In the urban sector, a series of laws aimed at institutionalizing labour relations had some results. The data on labour dispute cases accepted for arbitration and mediation shows a large jump after 2007 although it is not possible to gauge the extent this is due to a greater willingness to send disputes through legal channels or the result of an increase in the levels of protest in the wake of the global financial crisis.

It is too soon to declare that Beijing's gamble has paid off. The global financial crisis saw many rural enterprises go bankrupt and rural migrant workers were sent back to the countryside as a result of the export growth slowdown. With an increasing rural landless population and increasing numbers of unemployed rural labourers, the prospects for social strife are considerably increased. Urban labour protest has continued with highly publicized protests, including suicides and strikes, in China's global factories showing

continuing deep-seated labour grievances. The latent potential of China's workers remains. In the absence of genuine trade unions to represent them and with expectations raised by the new labour laws, labour protest is unlikely to recede any time soon.

In response to the so-called «Arab Dawn» of the spring of 2011, and fearing a «Jasmine Revolution» of their own, China's leaders bared their authoritarian teeth once more and rounded up activists thought capable of organizing such a rebellion. But China's leaders are not relying only on repression. As this article has shown, they have also engaged in a decade-long strategy of instituting a «counter movement from above» in an attempt to remove the basis for a popular uprising. Seen in this light, while Washington's global gamble unravels, China's domestic gamble still remains in the balance.

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