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EAST ASIA

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Coping with Reform in Guizhou's Industrial Rust Belt

“... if war breaks out we have nothing to fear.”

— Mao Zedong (1965)

GUIZHOU, China

June 1998

Mr. Peter Bird Martin
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Dear Peter:

Even if you happened to ride by this factory you probably wouldn't notice that it exists. Located down a twisting road 15 kilometers from Duyun City, “321,” as it is commonly referred to by its central-government designation, is camouflaged by several mountains that press tightly around it. Only a series of three-story buildings peeking out of a grove of trees hint that there is anything in the area besides farmers and paddies.

Still outside the factory gate, but within the covering of shade trees, a series of cement-block apartment buildings, one-room restaurants, a clinic and a school building indicate that people live here. Indeed, the people who stroll back and forth in this self-contained compound are members of a 3,000-member factory community called “Chuzhou Wireless Communications” — at least that's the name inscribed on the factory's gate. Actually, even the factory's name disguises the exact identity of the plant. “321” manufactures radar systems.

“The factory sits behind that mountain,” an engineer explains as he points beyond the gate — the factory itself still invisible. “It was built at the base of several sheer cliffs to provide 360-degree protection. There is even a large cave the factory can be disassembled and hidden in if it were to come under attack. But the cave was never used; it's been sealed up for years.”

“321” and nearly 2,000 other factories like it sprinkled strategically throughout the mountains of China's hinterland are a legacy of Mao Zedong. Though built just 30-some years ago as part of Mao's Third Front industrialization program,¹ “321” seems like something from a totally different era all together — those were the years of the Cultural Revolution, Red Guards and the “Little Red Book.” As relics of the time, these industrial dinosaurs that now litter the mountains of inland China are reminders that much of China's current economic-

¹ A thorough treatment of the Third Front industrialization strategy may be found in Barry Naughton, “The Third Front: Defence Industrialization in the Chinese Interior,” *The China Quarterly*, no. 115 (September 1988): 351-386.

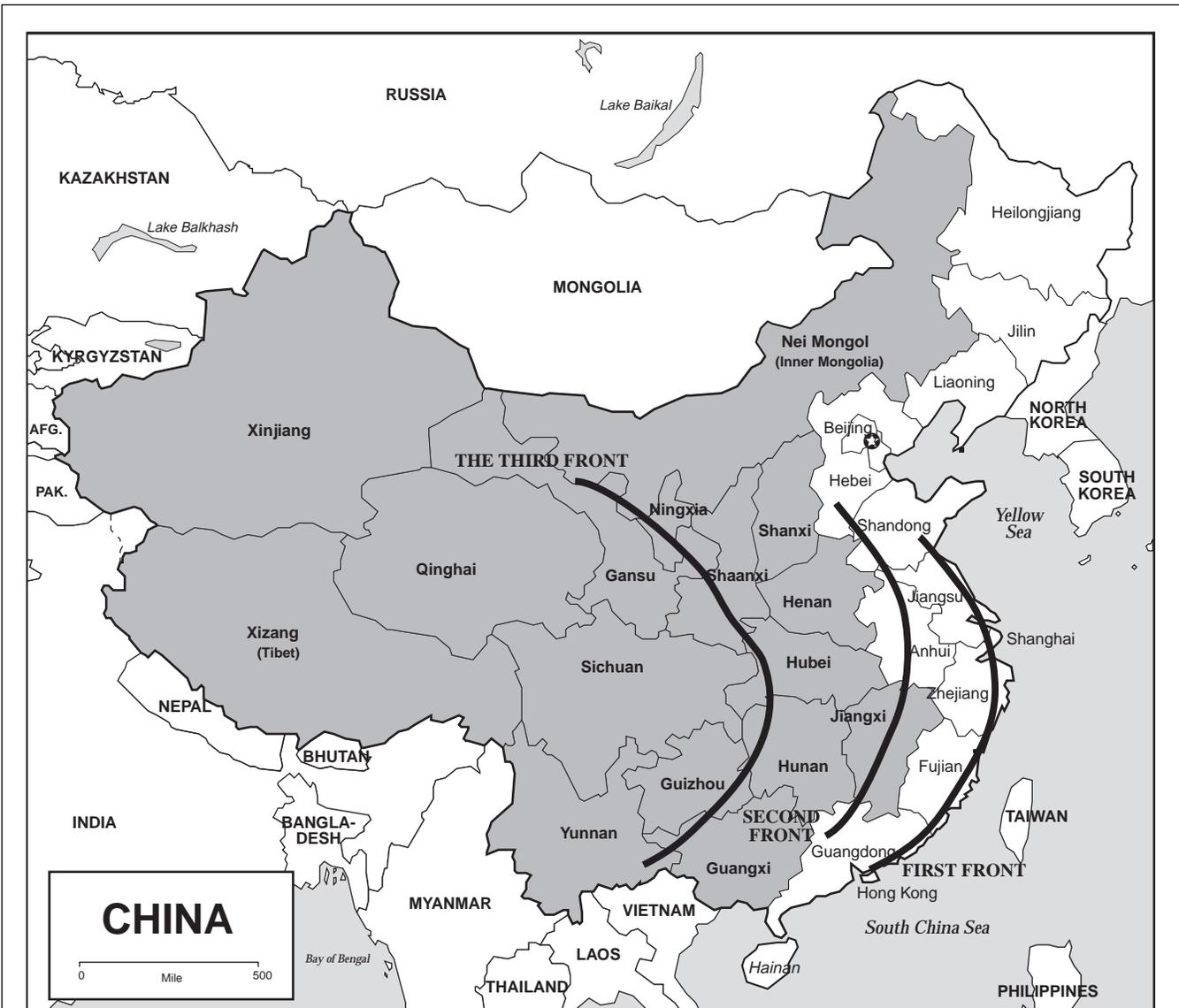
reform agenda is focused on undoing industrial policies of the Mao era.²

Mao's Third Front industrialization program was a massive, top-secret investment strategy motivated by perceived threats from the Soviet Union, the United States and Taiwan. The goal of the national plan was twofold: to relocate key factories from the country's "first front" (coast) and "second front" (central China) to the west (the "third front") so as to minimize the loss of industrial assets in the event of a war; and to develop strategic industries in the protected environs of the country's remote interior.

From 1964 to 1971 — the high tide of the Third Front

— while most of the country reeled in the throes of the Cultural Revolution, the central government sank an astounding 50 percent of its total national spending (per annum) into the construction of steel, armaments, machinery, chemicals, petroleum and railroad base areas in China's remote inland regions. The objective was that, as Mao said himself, "if war breaks out we have nothing to fear."³

Such a defensive approach is understandable for a country preparing for war; and most of his life, Mao had known only war and "strategic retreats" — lessons learned during protracted civil war with the Nationalists, the Long March and Japanese occupation. Though



The term "third front" refers to China's remote interior regions thought to be most impenetrable in the event of foreign aggression. The "third front" included all of Guizhou, Sichuan, Yunnan, Gansu, Ningxia, Qinghai, the southern part of Shaanxi, and western areas of Henan, Hubei and Hunan provinces. Much of economic reform in China today is focused on undoing industrial policies of the 1950s-70. In areas like Guizhou Province that means, in part, dealing with the legacy of the Third Front.

² The "Mao era" ended with Mao Zedong's death in 1976.

³ Naughton, *op. cit.*, 351.

the international environment during the 1960s was indeed tense, the perceived enemies never attacked.

By the late 1970s, the rationale and political support for an interior-looking industrialization ceased to exist. And with the rise of Deng Xiaoping, national investment priorities shifted completely to a coast-led, outward-focused development strategy. The result was an abandoned Third Front strategy and recognition that while most of the factories were not viable, they could not be moved, either. For the time being they would have to be supported.

The 1,500 workers and technicians at “321” reflect this history. They, however, face a very different reality today than in 1966 when they and their factory — as national priorities — were relocated from coastal Jiangsu Province. Though they were guaranteed jobs, housing, medical care and education for their children, the move involved tremendous sacrifice. These young engineers and factory workers were required to give up their lives on the coast and to reconstruct them in a self-contained community hidden amidst a grove of trees somewhere in the remote mountains of southern Guizhou Province. Today, though many still speak with a Jiangsu accent, few have ever returned to their coastal homes. A factory worker joked with me that they had felt exiled, as if they had done something wrong.

But until lately, “321” has had it better than many other Third Front factories because it manufactures a technical, defense-related product. Even after central-government attention turned to emphasize the development of China’s coast, government funding continued for “321.” As part of a planned economy, the radar factory produced according to quotas and regardless of cost or efficiency.

All this, however, began to change in 1995 when the factory’s leaders were told that it was time to face the market. More recently, the factory leaders have even been told they will receive no more government funding. “321” will survive, by sales or become a memory.

Though “321” continues to sell a few radar systems a year and is hurriedly trying to develop more marketable products, the people I spoke with at “321” believe that the factory’s days are numbered. Four hundred laborers have been placed “off-post” and more layoffs are expected.⁴

The magnitude of the challenges “321” faces is by no means unique. Cities like Duyun and provinces like Guizhou throughout China’s interior, which at one time

benefited from the expensive and urgent push to develop their areas, now face the quandary of how to reform what have become colossal burdens. Everyone I have spoken with recognizes that positive change will come only at tremendous economic, social and human cost.

Third Front industrialization came at a huge price for the nation as well. Although the Third Front served to better integrate the country through infrastructure improvements (railway grids, in particular)⁵ and sent trained professionals to areas of the country that would not have received such expertise otherwise, the concern for national security and strategic choice behind the Third Front — as opposed to development considerations — created what Barry Naughton of the University of San Diego calls “a negative impact on China’s economic development that was certainly more far-reaching than the disruption of the Cultural Revolution.”⁶ Naughton believes that China’s current annual industrial output is currently 10 to 15 percent below what it would have been if the Third Front had never been undertaken and the funds [some believe up to U.S.\$100 billion] had been invested in other inland locations.

UNDOING THE PAST

At the Fifteenth Party Congress (September, 1997) the central government promised decisive action to address the state sector’s — including Third Front industries — massive debts and chronic inefficiencies. This commitment to reform was furthered by Zhu Rongji’s selection as premier in March 1998. Often referred to as China’s economic czar, Zhu has come out very strongly with promises to reverse the cycle of state-owned-enterprise (SOE) losses within three years.

Thus far, it appears that Zhu has been given a relatively free hand in pushing forward his restructuring agenda. Forty-plus years of sediment has accumulated under a planned economy that now requires extensive dredging. As a result, the measures being taken are drastic — massive layoffs and widespread factory shutdowns indicate there is no other choice. As China attempts to move from socialism to capitalism in one generation, a key factor to its success will be the government’s ability to integrate 300,000 state-owned enterprises (more than half of which are loss-making) into an evolving market-based economy.

Adding to the historic proportions of the current economic-reform effort are initiatives to lighten government bureaucracy. The plan, which went into effect this

⁴ “Off-post” (*xiagang*), often translated “laid-off,” refers to state-owned enterprise workers who have been asked not to come to work due to factory shutdowns, lack of production, or insufficient funds to pay salaries.

⁵ Before the Third Front construction started Guizhou Province had only 377 miles of railroad track. Between 1965 and 1972, an additional 1,144 miles of track were completed.

⁶ Naughton, *op. cit.*, 351.



Little-known of Duyun City, with its 460,000 population, owes much of its past growth to Third Front industrialization.

Today, however, some of the city's most important reform challenges trace directly to its Third Front legacy.

month, reduces the number of government officials by 30 to 40 percent.⁷ And all this comes during a worrisome period of economic slowdown for both China and the region.

Since 1979, China has been known for its explosive economic growth, especially rapid in the non-state sector. For the immediate future, however, it appears that China is entering a period of moderate economic growth that will be predominantly characterized by far-reaching reform. The success or failure of these reforms will play an important role in determining how this country will evolve over the next 10 to 20 years.

Little-known of Duyun, a city of 460,000 people in southern Guizhou Province that owes much of its past growth to Third Front industrialization, provides a fascinating micro-study of efforts to undo the past. Like the rest of the country, debt, inefficiency, bloated payrolls and poor management plague Duyun's state-owned enterprises.

Listen to what factory workers in Duyun say when asked why their factories are failing:

"There are way too many workers in our factory; at least five people do the job of one person."

"The factory's management doesn't have a clue about how to operate according to principles of a market economy."

"Our biggest problem is that workers don't trust the factory's leaders. The leaders siphon money from

factory coffers enriching themselves while the factory can barely keep its doors open."

"No one is motivated; there are no incentives."

"The quality of our factory's workers is too low. We are terribly inefficient."

Though these comments come from workers in Duyun, they could just as well be heard in any city around China. And while there are commonalities across regions, there are also important differences that distinguish Duyun's predicament (and those of other inland cities) from state-owned-enterprise reform in other areas of the country. According to several government officials here in Duyun, these distinctions create a more difficult task of reform. I believe them.

For one, coastal SOEs were not buried in the mountains, strategically hidden from the enemy, far from major cities and far from the coast. What this means for Third Front enterprises in the interior is that, while well protected, they exist far from the markets they now need to depend on. Less access to markets and higher transportation costs cripple their ability to reform. Compare this to SOEs on the coast, which though in difficult straits as well, at least have better access to markets. Mr. Song Min, Director of Qiannan Prefecture's Economy and Trade Bureau, told me that lack of access to markets is this region's biggest obstacle to reform.

The challenge of SOE reform in the interior is exacer-

⁷ To illustrate the burdensome level to which bureaucracy has grown, a prefecture-government official told me that, at present, one out of every 29th person in China is a government official. Compare this to 1 out of 50 people in the early 1950s; 1 out of 2,900 people during the Ming Dynasty; and 1 out of 3,900 people during the Tang Dynasty. The official added that in 1997, national government revenue totaled 864 billion yuan, while funds spent on government officials totaled 367 billion, or 43% of government revenue.

bated by the unusually large share of industrial output occupied by its state-owned sector. In 1995, for example, 67 percent of Guizhou Province's industrial output was produced by state-owned enterprises. Compare this with coastal provinces like Guangdong (18 percent) and Zhejiang (14 percent). Even Liaoning Province, northeast China's heavy-industry center, whose state-owned enterprises produced 44 percent of the province's industrial output, occupies a smaller share than Guizhou Province.⁸ For Guizhou Province this reveals not only the weakness of its non-state-owned sector, it also indicates that reforming its lopsided state-owned sector will be all the more difficult.

What is true for Guizhou Province specifically applies to the region generally. In the eastern region of China, SOEs produce an average 28 percent of all industrial output; in the central regions, SOEs produce an average 44 percent; and in western China, SOEs produce an average 55 percent.

As a corollary to the above figures, non-state-owned options of production in provinces like Guizhou are far less than in the country's central and coastal regions. Such alternatives would include collectively owned enterprises, township and village enterprises, private enterprise and foreign-owned companies.

In interior cities like Duyun, there are two extremes: decaying state-owned enterprises and traditional agriculture, with few layers of economic strata in between. All this means reform of Guizhou's state-owned sector will be more stubborn, as laid-off workers from state-

owned enterprises have far fewer options to pursue after losing their jobs.

And finally, officials and factory workers in Duyun tell me that the city's SOE workers are less entrepreneurial and less likely to want to take risks than workers on the coast who, though having always worked in a state-owned enterprise, adapt more easily when tossed into a sink-or-swim, market-oriented economy. Less familiarity with and, among some, fear and resentment of life outside the "iron rice bowl" may create a drag on reforming the state-owned sector in Duyun and cities like it throughout the interior.

HUMAN COSTS

One of the valuable aspects of living in China's interior as an ICWA Fellow is that policies and statistics that for most part could be read about only from a distance take on a distinct human flavor. Neighbors fill labor redundancy numbers; local government policy is made and implemented by people we know. The successes and failures of Duyun's efforts to deal with necessary, but difficult, reform of its state-owned sector play out before our eyes.

Take 30-year-old Li Fangfang — our "milk lady" — for example. Since she was old enough to work Ms. Li worked at a state-owned factory in Duyun on a production line making shoe-heels. She and her husband both worked at the factory until they were laid off two years ago. But since being laid off, neither of them has received a penny from their factory even though the factory is sup-



Laid-off factory workers have different ways of coping with reform. Li Fangfang — our "milk lady" and friend — delivers bags of fresh milk to our home every other day.

⁸ *Guowuyuan fazhan yanjiu zhongxin jingji gongzuozhe xuexi ziliao* (State council development research center economists study material), no. 59 (1997): 44. Monday, July 06, 1998. And this is among the least productive province in the entire country. To bring this point home a Guizhou Province government official recently told me that the province (one of 30) produces just 1% of the country's entire gross domestic product (GDP).

posed to provide 180 yuan (about U.S.\$22) monthly compensation to each of its laid-off workers.⁹ Hardly enough to live on, she says, but it would be better than nothing.

With responsibilities to care for a young child, and with her spouse laid off as well, Ms. Li is among those for whom transitioning out of cradle-to-grave employment is most difficult. She admits, however, that there is a slightly older age group that is having an even more difficult time coping with reform.¹⁰ Now in their mid-40s, the “Red Guard” generation — who as young people in the 1960s during the Cultural Revolution served as Mao Zedong’s revolution-makers — is now often considered the least desirable by potential employers. Yet, they are also too young to enjoy a relatively more relaxed retirement-age life-style dependent on grown children. Perhaps most difficult for this age group, however, is the sense of victimization they feel. Self-described as China’s lost generation because of the opportunities, particularly educational, they missed as youth during the Cultural Revolution, they now face unemployment.

“But feeling sorry for oneself doesn’t put rice on the table,” says Ms. Li in a husky voice. And though she is not happy about her predicament, Ms. Li is certainly not sitting around waiting for the government to come help her.

Every morning at 7:00 a.m., Li Fangfang and her husband ride their three-wheel, flatbed bicycles to a wholesale milk distributor, package and load 2,000 six-ounce bags of fresh milk onto their bicycles and prepare the delivery list. Ms. Li then rushes home to prepare lunch for her child. Just after lunch, she and her husband begin their deliveries. Between 1 and 8:30 p.m., between the two of them on separate routes, Li Fangfang and her husband deliver fresh milk to over 400 families. Their reward for this back-breaking work, which Ms. Li and her husband now do seven days a week, is a only 20 yuan (U.S.\$2.40) between them, per day.

Listening to Ms. Li speak is heart-wrenching. Six-hundred yuan per month, she says, is barely enough to make it, and that’s if they are very careful with their money and no one gets sick. If a family member were to get sick, they do not have medical insurance; the shoe-heel factory stopped providing coverage long ago.

Though she speaks with long sighs between her sentences, I could hear a healthy sense of fight in her voice: “No matter how difficult it is, I’d rather work for myself than some factory boss who becomes wealthy off of my hard work. Though not much, at least the money we make from delivering milk is our own,” she said. She may be

beaten down by life’s burdens but dignity and self-respect are written on her face. Our neighborhood’s “milk lady,” in her effort to adjust to what government reform has dealt her, is not about to give up.

The ability of Li Fangfang, the “Red Guard” generation and the rest of the country’s laid-off workers’ ability to cope with the challenges of being shrugged off by government cradle-to-grave paternalism will play an important role in shaping China’s evolving future. Indeed, by virtue of a retreating state-owned sector, the contracting role of the state in peoples’ lives has important and far-reaching implications for Chinese society.

COPING WITH REFORM

Li Fangfang is one of 11,000 (if you count officially), or 40,000 (if you listen to local scuttlebutt), laid-off state-owned enterprise laborers in Duyun. And Duyun’s laid-off workers constitute just a drop in a nationwide bucket, a force 30-million people strong, and growing.

The official unemployment figure, about four percent, does not include laid-off workers, which — when you get down to individuals’ realities — does not mean a whole lot to those who have fallen through the cracks of structural reform. Laid-off workers, like Li Fangfang have to find their own way to put food on the table, regardless of how they are categorized by government statistics.

People across the country are getting quite creative at coping. The old saw “necessity is the mother of invention” certainly applies here. In Duyun, particularly because of the lack of alternatives to state-owned enterprises, the most common way to make money is through service-related activities. Women become nannies; others help with grocery shopping and cooking; beauty salons are springing up like mushrooms after a rain; one family pooled their resources and bought a taxi (they take turns driving it); many have opened little convenience stores and eateries around Duyun.

Family networks — as an informal social safety net — also play an important role in helping laid-off workers weather the storm. One man I know has two sisters, one of whom is laid off. Because he makes a salary, he and his wife and child provide money each month to help support the laid-off sister and her family. The other sister, who is not laid off, and her family care for their elderly parents. “Don’t underestimate the strength of the Chinese family,” this friend told me.

Family assistance aside, increasing numbers are turn-

⁹ A prefecture-government official told me that more than half of Duyun’s factories are not providing basic compensation for their laid-off workers.

¹⁰ The age distribution of laid-off workers is 11% between the ages 16-24; 70.5% between the ages 25-44; and 18.5% above the age of 45. [see Yang Yiyong, ed., *Shiye chongji bo: zhongguo jiuye fazhan baogao* (The lashing waves of unemployment: China employment development report) (Beijing: *Today’s China Press*, 1997), 328.]

CHINA'S UNEMPLOYMENT ENIGMA

Reminiscent of the early 1980s when official China used the term “waiting for work” (*daiye*) to justify its claim that the country had no unemployment, the present official unemployment rate — a healthy 3.6 percent in 1996 — does not include two important categories of “hidden” unemployment: laid-off state-owned-enterprise workers and rural surplus labor. According to Zhang Suping of the State Planning Commission’s Macroeconomic Research Institute, current rural “hidden” unemployment totals 183 million people, or 31 percent of the rural workforce; and current urban “hidden” unemployment totals 18.8 percent of the workforce. Zhang estimates that a more realistic unemployment rate for China, if the “hidden” unemployed are counted, totals approximately 27 percent of China’s work force.¹¹

Zhang is not alone in this view. Zhou Lukuan, a director at the Labor and Personnel Bureau at People’s University in Beijing, estimates the unemployment rate as high as 20 percent.¹²

A February 1998, Guizhou *Economic Daily* article also states that, when “hidden” unemployment is included, between 180 and 260 million Chinese people are unemployed — that’s about 20 percent of the population. The *Economic Daily* article’s author is quick to add: “that’s about the size of the entire population of the United States.”¹³

ing to quicker, tragic ways of making money: prostitution and drugs (heroin is most common). Only 15 years ago, drugs and prostitution in China were virtually unheard of. Now, though, in even small cities like Duyun prostitutes, and drugs are readily available.¹⁴

Growing numbers of laid-off workers who can’t make it in Duyun are heading to China’s coast to look for employment.¹⁵

There are, however, those who can’t cope — legally or illegally. Until the mid-1990s, poverty was a *distant* reality in China’s urban centers. Poverty was a *true* reality known only by those in the countryside. As the guar-

antees of socialism weaken under government preferences for competition and an incomplete social-welfare system, however, urban poverty has reared its ugly head. According to China’s State Statistical Bureau, five percent of China’s urban population, totaling 12.5 million people, live in poverty.¹⁶ Eighty-seven percent of the urban poor are either laid-off workers or retirees.

Whether out of desperation, out of anger over corrupt factory officials, or out of frustration over having lifetime employment and all its benefits suddenly pulled out from under them, workers protests have become common. Though there have been no large-scale protests in Duyun yet, organized groups of laid-off factory workers frequent the prefecture government building demanding compensation payments. But as Li Fangfang says, “these protests don’t get you anywhere, and besides the government doesn’t pay any attention to you as you sit at the government headquarters’ front gate. After awhile you get hungry and go home. And you’re certainly not going to make any money just sitting there.”

Though perhaps ignoring less-than-threatening protests, both central and local governments are concerned about laid-off workers. They realize that rough-and-tumble factory workers — what Americans may imagine as the equivalent of West Virginia coal-miners or Pittsburgh steelworkers — are as great a threat, if not greater, than any form of student protest.

Stated more positively, the government realizes that effective state-owned-enterprise reform and solutions for laid-off workers are at the heart of future economic health for the country. No question about it, as the overweight government attempts to off-load fiscal burdens, efforts to steer the economy — really, the entire country — in a healthy and constructive direction are critical. But the task is monumental and, quite frankly, beyond the complete control of the government. Besides, isn’t that one of the goals of state-owned-enterprise reform — to encourage the economy to operate at a safe distance from the government?

A core dimension of the government’s effort to facilitate the transition of 30 million laid-off workers, and to minimize social unrest, is psychological. Official Chinese newspapers and television programs address, almost on a daily basis, the necessity for reform. Two themes are most prevalent. First, that layoffs are not peculiar to China. “Being laid off and finding a new job is common

¹¹ Yang Yiyong, ed., *Shiye chongji bo: zhongguo jiuye fazhan baogao* (The lashing waves of unemployment: China employment development report) (Beijing: *Today’s China Press*, 1997), 48.

¹² Pamela Yatsko and Matt Forney, “Demand Crunch,” *Far East Economic Review*, 15 January 1998, 46.

¹³ *Guizhou jingji bao* (Guizhou *Economic Daily*), 26 February 1998.¹⁴ Guizhou Province is becoming a significant drug-trafficking hub in China. Narcotics come from Southeast Asian countries like Burma, cross into China through Yunnan Province, then on from Guizhou to other regions of China and, I assume, the world. Cooperation on narcotics control is becoming an important area of cooperation for the U.S. and China.

¹⁵ See my February, 1998 report (DBW-5).

¹⁶ *Guizhou jingji bao* (Guizhou *Economic Daily*), 3 May 1998, 1.

*“Laid-off Worker Tax-free Alley”
is a government effort to
demonstrate that it cares and is
doing something practical for
laid-off workers in Duyun.*



for any society; it is certainly not an issue unique to China,” reads the front-page story in a Guizhou newspaper this April.¹⁷ As if to comfort readers, the full-page story adds, “In the United States, the average worker is ‘laid off’ and makes a transition to new work 12 times during his/her life.”

Secondly, the media emphasize the need for self-reliance. In other words, get off your bum and find a job — find something to do, find anything to do — the government is not going to do it for you, as you’ve been used to all your life. “There’s nothing scary about being laid off,” reads another article. “The road to re-employment is just under your foot; with each step, the road will get wider and more secure.”¹⁸ But you have to take that step yourself, the article emphasizes. The same story holds up a former factory worker in Wuhan as a model, who in looking for a money-making activity invented a machine to spread polyurethane on wooden floors. “If I hadn’t have been laid off, I never would have become an inventor,” he’s quoted, as if grateful for being laid off. “I would have operated a lathe all my life.”

Beyond efforts in the media, national and local governments are making practical initiatives as well. Though Duyun is behind the curve and actions the city has taken thus far are more fluff than substance, efforts to help laid-off workers find employment have begun.

“Laid-off Workers Tax-free Alley,” established in December 1997, is a highly-publicized side-street in Duyun that has been closed off to make room for 100, 6x6-foot stalls in which laid-off workers are given tax-exempt treatment to sell their wares. Like slogans in an athletic locker-room, banners over the alley’s entrance encour-

age participants to “renew oneself for a new life.”

Though the stalls are full of goods — nail-clippers, hair trimmers, kitchen utensils, toiletries, underwear, children’s clothing — business is slow. Laid-off workers-turned-salespeople lament that this idea is not working very well. Even an official in the prefecture’s Peoples Congress told me recently that “Laid-off Worker Tax-free Alley” is more of a show than a solution.

In addition to the tax-exempt business opportunity, eight outdoor locations around the city provide information on job opportunities. Hand-written posters glued to a wall provide a colorful backdrop to the Labor Department official that sits at his street-side desk, consulting laid-off workers looking for work. The official I spoke with said that he speaks with an average of 400 people a day, 200 of whom make serious inquiry. Among those, 12 find a job.

All in all, however, Duyun’s efforts lag behind initiatives already under way in major cities across the country. Almost every city has a service center to help laid-off workers connect with new work and training centers to assist laid-off workers in learning new skills — hairdressing, massage and cooking seem to be the most popular.

Duyun’s efforts may improve soon, however. At the end of June, Qiannan Prefecture, of which Duyun is the capital, convened a meeting to discuss re-employment and social welfare initiatives. The prefecture and city government meeting was the final phase of a series begun by the central government in mid-May and the provincial government in early June. The meetings have focused on job education and social safety nets for those laid off.

¹⁷ *Guizhou jingji bao* (Guizhou Economic Daily), 19 April 1998, 1

¹⁸ *Guangming ribao* (Guangming Daily), 19 May 1998, 1.



This Labor Department Official speaks with over 400 people a day at his street-side consulting booth. Of the seekers he speaks with, about a dozen people land jobs.

While talking a lot about the importance of job education and social safety nets, however, few specific measures have been put in place. “And besides,” a prefecture-government Labor Department head, involved in the meetings told me, “we are the ones who have to implement anything the national or provincial-level government leaders suggest. They determine the principles, we take the action. But quite frankly, with laid-off workers and state-owned-enterprise reform in Duyun, we really have no idea how to turn the situation around.”

Though uncertain about specific measures to take, government leaders at all levels are quite clear about one thing, and repeat it often: economic growth is most important to secure the momentum and success of state-owned enterprise reform. There’s the rub. As if producing a magical number, the central government says that eight percent growth for 1998 is necessary to absorb laid-off workers and the 13 million people who enter the labor force each year as a result of population growth. The economy grew 7.2 percent in the first quarter, according

to official statistics. Even if it did, no one is sure how it will perform through the balance of the year.

Regardless of whether the economy grows at eight percent, however, everyone I have spoken with — from the engineer at “321,” to Li Fangfang the “milk lady,” to laid-off workers and government officials in Duyun, Shanghai, Nanjing and Beijing — believes that state-owned-enterprise restructuring, as part of sweeping reform set in motion during this year’s National People’s Congress, places China at a critical stage in its development.

Oh, and there’s one other thing everyone I spoke with agrees on: Things are going to get worse before they get better.

Sincerely,

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