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Coping with Reform in Guizhou's Industrial Rustbelt

Little-heard-of Duyum 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.

If war breaks out we have nothing to fear.

—Mao Zedong (1965)

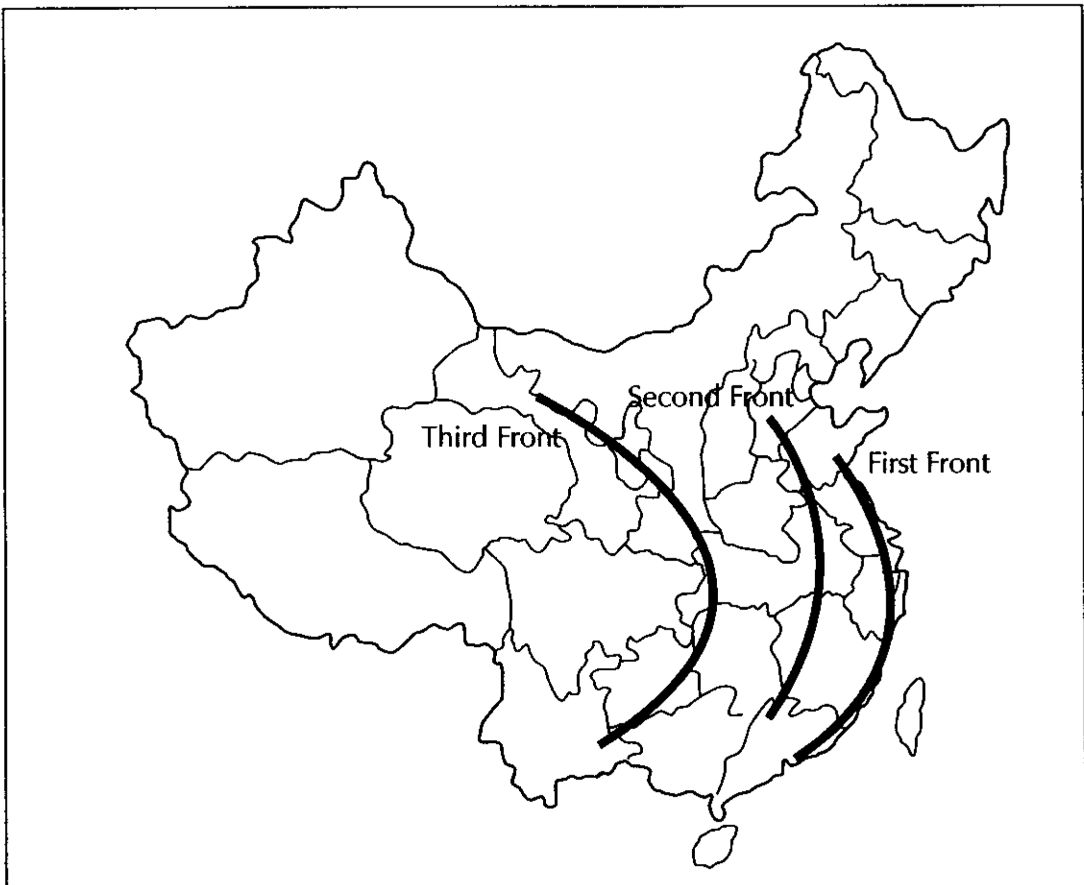
Even if you happened to ride right by, you probably wouldn't notice that this factory exists. Tucked down a twisting road fifteen kilometers from Duyun City, "321," as it is commonly called by its central-government designation, is camouflaged by several mountains that press tightly around it. Only a series of three-story buildings peeking out of a grove of trees hint that there is anything in the area besides farmers and paddies. Just outside the factory gate, a series of cement-block apartment buildings, one-room restaurants, a clinic, and a schoolhouse offers further proof. Indeed, the people who stroll back and forth in this self-contained compound belong to a three-thousand-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." A legacy of Mao Zedong, "321" and nearly two thousand other factories like it are sprinkled strategically throughout the mountains of China's hinterland. Though built just thirty-some years ago as part of Mao's Third Front industrialization program, "321" seems like something from a totally different era altogether—those were the years of the Cultural Revolution, Red Guards, and Mao's "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-reform agenda is focused on dismantling the industrial policies of the Mao era.[1]

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.[2] 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 40 percent of its total annual budget 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]

Map 13.1. The Three Fronts



The term "third front" refers to China's remote interior regions, thought in the 1960s 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 the economic reform in China today is focused on undoing industrial policies of the 1950s–1970s. In areas like Guizhou Province that means, in part, dealing with the legacy of the third front.

Such a defensive approach is understandable for a country preparing for war, and most of his life, Mao had known only fighting and "strategic retreats"—lessons learned during protracted civil war with the Nationalists, the Long March, and Japanese occupation. Though 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 at the end of the decade, national investment priorities shifted completely to a coast-led, outward-focused development strategy.[4] 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 amid 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 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, managers have even been told that they will receive no more government funding. Thus "321" will survive on its own or will 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 believe that the factory's days are numbered. Four hundred laborers have been placed "off-post," and more layoffs are expected.[5]

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 enterprises that 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) 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 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 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 massive debts and chronic inefficiencies. This included the Third Front industries. The commitment to reform was furthered by Zhu Rongji's selection as premier in March 1998. At that year's National People's Congress meeting, Zhu pledged to reverse the cycle of state-owned enterprise losses within three years. Complementing the determination to reform from within, China's accession to the World Trade Organization opens the country to external competitive forces that will further drive domestic economic reform.[7]

However, forty-plus years of sediment has accumulated under a planned economy, which requires extensive dredging. As a result, the measures being taken are drastic—massive layoffs and widespread factory shutdowns indicate that there is no other choice. Between 1998 and 2001, more than 36 million state workers, one-third of the total, lost their jobs.[8] According to a 2002 National People's Congress session, 52 million more workers will lose their jobs in the next five years.[9] Add the 12–13 million people that enter the labor market each year, and one begins to get a sense of the burden that weighs down on the state-owned sectors of China's economy. The issues become specific and personal in small cities like Duyun.

Obscure Duyun, a city of 460,000 in southern Guizhou Province that owes much of its past growth to Third Front industrialization, provides a fascinating microstudy 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 cities in China's hinterland) 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.

For one, coastal SOEs were not buried in the mountains, strategically hidden from the enemy, far from major cities, and far from the country's seaboard. 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, can at least reach their markets. Mr. Song Min, director of Qiannan Prefecture's Economy and Trade Bureau, told me that lack of access is this region's biggest obstacle to reform.

The challenge of SOE reform in the interior is exacerbated by the unusually large share of the economy 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.[10] For Guizhou Province this reveals not only the weakness of its non-state-owned sector, it also indicates that reforming its lopsided public sector will be all the more difficult.

What is true for Guizhou Province specifically also applies to the region generally. In eastern China, SOEs produce an average 28 percent of all industrial output; in the central regions, 44 percent; and in western China, 55 percent.[11] As a corollary, 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 businesses, 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 that 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 are 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 public sector in Duyun and cities like it throughout the interior.

HUMAN COSTS

Living in China's interior for a period of time allowed me to see the human dimension of policies and statistics that for most can be read about only from a distance. Neighbors filled labor redundancy numbers; local government policy was made and implemented by people we knew. The successes and failures of Duyun's efforts to deal with necessary but difficult reform of its state-owned sector played out before our eyes.

Take thirty-year-old Li Fangfang—our "milk lady"—for example. Since her teens Ms. Li made shoe-heels at a state-owned factory in Duyun. She and her husband both worked at the factory until they were laid off two years ago. But since then, neither has received a penny, even though the factory is supposed to provide 180 yuan (about U.S. $22) monthly compensation to each of its laid-off staff members.[12] 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 harder time coping with reform.[13] Now in their forties and fifties, 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 lifestyle, 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 youths 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. From 1:00 to 8:30 P.M., 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 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 fall ill, they have no 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 for some factory boss who becomes wealthy off my hard work. Though not much, at least the money we make from delivering milk is our own," she said. Although she is beaten down by life's burdens, dignity and self-respect are written on her face. Our neighborhood's "milk lady," in her effort to adjust to the blows 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 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 public 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), former state-owned enterprise laborers in Duyun. The official unemployment figure in Duyun, a mild 4 percent, does not include laid-off workers or hidden unemployment, small comfort to those who have fallen through the cracks of structural reform. Like Li Fangfang, they 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 adage "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 its resources and bought a taxi that family members take turns driving; 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 sister and her family. The other sister, who is working, 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 turning to quicker, more tragic ways of making money: prostitution and drug dealing (heroin is most common). Only fifteen years ago, drugs and prostitution in China were virtually unheard of.

Figure 13.1. 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 unemployed, the present official nationwide unemployment (*shiye*) rate—a rosy 3.6 percent—does not include two important categories: "hidden" unemployment and those who have been "laid-off" (*xiagang*) from their state-owned jobs. The term unemployed is officially defined as permanent urban residents who are of working age, capable and willing to work, and have applied at a local employment center for a job. "Hidden" unemployed are those who are no longer gainfully employed but have yet to be formally let go by their work units.[a] According to scholars at the Beijing-based Development Research Center, a government think tank, a more accurate national average may be 8–9 percent urban unemployment, with the figure spiking to above 20 percent in industrial rustbelts.[b]

The situation in the agricultural sector is different, but even more severe. Zhang Suping of the State Planning Commission's Macroeconomic Research Institute states that current "hidden" unemployment (redundant labor in the case of farming) in rural areas totals 183 million people, or 31 percent of the rural workforce. A Guizhou *Economic Daily* article notes that, when including "hidden" unemployment and combining urban and rural China figures, between 180 and 260 million Chinese people are unemployed—that's about 20 percent of the population. As the article's author is quick to add: "that's about the size of the entire population of the United States."[c]

a. Qian Zhihong and Wong Tai-Chee, "The Rising Urban Poverty: A Dilemna of Market Reforms in China," *Journal of Contemporary China* 9, no. 23 (2000): 116.

b. Matthew Forney, "Workers' Wasteland," *Timeasia.com* at www.time.com/time/asia/covers/1101020617/cover.html (07 September 2002). For an excellent review of the various interpretations and estimates of unemployment in China, see Dorothy Solinger, "Why We Cannot Count the 'Unemployed,'" *The China Quarterly*, no. 167 (September 2001): 671–88.

c. *Guizhou jingji ribao* (Guizhou Economic Daily), 26 February 1998.

Now, though, in even small cities like Duyun prostitutes and drugs are readily available.[14]

For laid-off workers who can't make it in Duyun or who believe that chances for employment are greater on China's coast, growing numbers are heading to the 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. Severe economic hardship was known only by those in the countryside. As the guarantees of socialism, however, weaken under government preferences for competition and an incomplete social-welfare system, urban poverty has soared. According to China's State Statistical Bureau, 5 percent of China's urban population, totaling 12.5 million people, live in poverty.[16] In 1995, the per capita yearly income of poor urban incomes was 1,360 yuan (U.S. $170). Eighty-seven percent of the urban poor are either laid-off workers or retirees.[17] Guizhou Province's 68,000 urban poor constitute 14.5 percent of the local urban population.[18]

Whether out of desperation, anger over corrupt factory officials, or frustration

over having lifetime employment and all its benefits suddenly pulled out from under workers, protests have become common.[19] 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 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. 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, is not 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 in the government's effort to facilitate the transition of millions of laid-off workers, and to minimize social unrest, is psychological. Official Chinese newspapers and television programs address, almost on a daily basis, the necessity of reform. Two themes are most prevalent. First, that layoffs are not peculiar to China. "Being laid-off and finding a new job is common for any society; it is certainly not an issue unique to China," reads the front-page story of a Guizhou newspaper.[20] And as if to comfort the readers, the full-page story adds, "In the United States, the average worker is 'laid-off' and transitions to new work twelve times during his life."

Second, the media emphasizes 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 reemployment is just under your foot; with each step, the road will get wider and more secure."[21] But you have to take that step yourself, the article emphasizes. The same story holds up as a model a former factory worker in Wuhan, who, in looking for a money-making activity, invented a machine to spread polyurethane on wooden floors. "If I hadn't been laid-off, I never would have become an inventor," he's quoted, as if grateful. "I would have operated a lathe all my life."

Beyond government exhortations expressed by 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 1997, is a highly publicized side street in Duyun that has been closed off to house over one hundred six-by-six-foot stalls, in which laid-off workers are given tax-exempt treatment to sell their wares. Like an athletic locker-room, banners over the alley's entrance, such as "Renew oneself for a new life," aim to motivate those attempting to start over.

Though the stalls are full of goods—nail-clippers, hair clips, kitchen utensils, toiletries, bras, 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 Workers' 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. Handwritten posters glued to a wall provide a colorful backdrop to the Labor Department official who sits at his street-side desk, interviewing laid-off workers looking for jobs. The official I spoke with said that he speaks with an average of 400 people a day, 200 of whom make serious inquiry, and, among those, 12 of whom find a job.

All in all, however, Duyun's efforts lag behind initiatives already underway 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 teach new skills—hairdressing, massage, and cooking seem to be the most popular.

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. And that's where the rub comes in. As if conjuring a magical number, the central government says that 8 percent growth is necessary to absorb laid-off workers and the thirteen million people who enter the labor force each year as a result of population growth.[22]

Regardless of how quickly the economy does or does not grow, 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—even in Shanghai, Nanjing, and Beijing—believes that state-owned enterprise restructuring, as part of the "creative destruction" process of economic reform, places China at a critical stage in its development. There is one other thing that everyone I spoke with agrees on: the situation is going to get worse before it gets better.

SUGGESTIONS FOR FURTHER READING

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