Fierce, Fair and Unfair Competition

THE EU–CHINA TRADE RACE AND ITS GENDER IMPLICATIONS

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Author: Christa Wichterich

Produced by: WIDE,
Rue de la science 10
1000 Brussels
Belgium
www.wide-network.org

Introduction

WIDE is a European network of non-governmental development organizations, gender specialist and women's rights activists. Since 1995 one of WIDE's core work areas has been the gender–development–trade nexus. In the recent past it has focused on the new generation of bilateral free trade and economic partnership agreements launched by the European Union (EU). As outlined in the European Commission trade strategy *Global Europe: Competing in the World* from October 2006, the EU is targeting large but still protected markets with these 'competitiveness-driven' treaties. China tops the list of potential partners.

This report on the EU–China partnership and co-operation relations comes in a series of political analysis of EU trade agreements with countries in the South from a gender perspective. Its focus is on the trade and investment agreement rather than on the human rights and political dialogue. It is part of an awareness-raising and advocacy project on EU trade and investment policies which 1) aims to disseminate information about the ongoing negotiations and the complex political, economic and social dynamics on the ground, 2) tries to enhance understanding of the gender implications of trade liberalization and EU trade policies, and 3) attempts to influence trade relations in such a way that they are consistent with social and gender justice, women's rights, environmental sustainability and other development objectives.

China remains to a large extent a blind spot in the gendered analysis of neoliberal globalization. Only a few in-depth studies on women workers in export production have been published recently. In particular, the service sector and care economies are unknown territories which are, however, being increasingly affected by transnational trade regimes. News about resistance to the restructuring of the economy and its high social and environmental costs are hushed up. Rather than attempting to provide comprehensive information, this paper tries to hint at areas for further networking of civil society organizations and gender research.

WIDE hopes that this report will contribute to a constructive dialogue between civil society organizations and policymakers in the EU. Even more, WIDE's advocacy work for gender equality and global social justice vis-à-vis the EU's trade and development policies has a role to play in exploring opportunities to exchange knowledge, build civil society alliances and network with China. Based on common concerns and common values, transnational democratic spaces have to be opened for voices and resistance which link gender justice and global economic justice.

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Barbara Specht/WIDE

1. Competition in a Multipolar World

For China, hosting the 2008 Olympic Games is another milestone to establish itself as a full member of the international community and as a global power. The first milestone was its accession to the World Trade Organization (WTO).

China has emerged as a global player and powerhouse on the international trade map; however, it is increasingly depicted as a giant economic monster. As the world's workshop, the country has become one of the main sites for transnational corporate investment and one of the main exporters of manufactured goods. Its growth rates stun its competitors; its weight in global trade scares its trade partners. Its hunger for natural resources and raw materials has set off a global commodity boom at a high cost for the environment. From a European point of view, its astonishing impact on each and every sector and region of the world economy is perceived at the same time as an economic growth model and as a threat to jobs, wealth and welfare in the EU. Various perspectives attempt to mitigate between the two polarized perspectives on China: the 'human-rights-first' perspective and the 'economy-first' perspective. Against the Sino-euphoria in the past decade, the human rights violations in Tibet have caused a new Sinophobia in the West. Additionally, anxiety is spreading that globalization could turn into a Sinosation of the world economy.

However, the fact that during its transformation from a state-led to a market-oriented economy China could lift millions of people out of extreme poverty is still considered to be a showcase for trade liberalization and export-led growth benefiting the poor. However, it is increasingly striking that the social and ecological costs of the Manchester-capitalist accumulation system are skyrocketing, the exploitation of human and natural resources is alarming, and social disparities are growing.

"Europe must get China right, as a threat, an opportunity and a prospective partner."

Peter Mandelson, Wolfsberg/Switzerland, 4.05.06

Against the backdrop of this ambivalences, the 9th EU–China Summit in September 2006 in Helsinki decided to launch negotiations on a bilateral Partnership and Co-operation Agreement (PCA). It should be a comprehensive framework for the currently three-pillared EU–China relations: 1) political dialogue (including human rights dialogue), 2) economic, sectoral and trade relations, 3) development co-operation. It is part of the overall strategy of the EU to strive for dialogue instead of confrontation, and to formalize and legalize its relations with China and make up ground on its main competitors, the US and Japan. However, the centre piece of the PCA will be an update of the 1985 Trade and Economic Co-operation Agreement. It will build on two EU documents published in October 2006: EU–China: Closer partners, growing responsibilities and the accompanying policy paper, EU–China trade and investment: Competition and Partnership. The overall tone of both these documents mirrors mixed feelings of admiration and respect on the one hand, anxiety and worry on the other. Their first and foremost objective is to improve and balance trade relations by further opening up China's markets, and by adjusting the Chinese economy to the international standards and legal requirements of the WTO.

Against the background of China's transformation into a market economy, its reckless growth path and social polarization, this paper explores the gender implications of the Chinese trade race and EU's push for sweeping liberalization. While these processes were initiated by the Chinese Government's 'open door' policies, since China's WTO accession they are increasingly driven by a complex interaction between domestic policies, foreign trade and investment policies, and corporate interests.

1.1. China's WTO Accession – Landmark in EU–China trade relations

The landmark event in China's trade relations was its accession to the WTO. After 15 years of negotiations, China became a WTO member on 11 December 2001. The EU welcomed China's accession for three main reasons:

- The multilateral trading system of the WTO could not be complete and universal without China;
- WTO accession would make the economic liberalization in China irreversible as it "has to abide by the rules of the game" and to strengthen the rule of the law; and
- China should "ensure a level playing field for our industry" (Beseler, 2002:5).[1]

The negotiations followed a dual-track strategy of bilateral negotiations with China's largest trading partners and multilateral negotiations. The bilateral EU–China agreement on WTO, signed in May 2000, was a waypost in the accession process. EU's interest focused:

- in the service sector on insurance, banking, distribution and telecommunications (the EU is the world leader in the mobile phone sector and covers 90% of the Chinese market);
- in manufacturing on motor vehicles, machinery and chemicals; and
- in agriculture on wine, spirits, butter and pasta, as well as on sanitary and phytosanitary measures.

Before the WTO accession, the percentage of European-owned companies in China

1 *Hans-Friedrich Beseler, former Director-General of Trade of the European Commission, served as Chief of the China Negotiating Team until May 2000.*

was only 14 per cent of all foreign-funded companies. China's attractiveness for EU-based companies mainly consists of a) the extended low-cost assembly line or – as Deutsche Bank says – *"Fierce global competition is literally forcing international producers to exploit China's low wage costs"* and b) the Chinese market of potentially 1.3 billion consumers or *"WTO membership now enables foreign companies to benefit from China's vast appetite for foreign products"* (Deutsche Bank Research, 2004). Foreign investors are allowed to take their profits out of the country.

China's interest in continuous foreign investment is threefold:

- expansion of its export production and access to foreign markets;
- import of know-how and technology (in particular from EU-based corporations); and
- job opportunities for its surplus, low-skilled or retrenched labour.

China's WTO commitments secured better access for EU firms, a more attractive and 'predictable' environment for investments by EU companies, and a reduction of import tariffs. It agreed to open key service sectors such as insurance, banking and telecommunications, which earlier were completely closed to foreign companies, in a sequenced reform until 2007. However, China insisted on some steadfast principles: joint venture requirements of 51 per cent in the mobile phone sector and 50 per cent for life insurance and for car production. A big controversy between the EU, USA and China arose around the only exemption made: for the US life insurance company AIG which was established in Shanghai with full foreign ownership and branching rights. Due to massive pressure exerted by the EU, two European insurance companies, Allianz (Germany) and Axa (France) were allowed to remain 51 per cent foreign owned (Matoo, 2002).

As the accession agreement gives China the status of a developing country, it is allowed longer transition periods for implementing its liberalization commitments. On the other hand, countries where a rapid increase in Chinese imports causes a threat to domestic industries and labour markets can use special safeguards and apply unilateral restraints on Chinese imports until 2008 or even up to 2013 – a clause which has already been used by the USA and the EU after the termination of the textile agreement in 2005. Additionally, WTO member countries have the option of anti-dumping investigations and charges until 2016 in case they feel that cheap Chinese imports constitute dumping (Li, 2002).

China complied quickly with its commitments to cut tariffs from an average of 15.3 per cent in 2001 to 9.9 per cent in 2006, and passed more than 3000 legal provisions and regulations to protect foreign investment and business. The average agricultural tariff worldwide stands at 62 per cent, yet China reduced its tariffs on agricultural products to 15.2 per cent in 2006. No other WTO member has ever made such drastic cuts in such a short period of time. Five years after its accession, WTO Director, Pascal Lamy, gave China's performance and structural reforms an 'A+'. However, the USA and the EU complained about non-compliance with regard to intellectual property rights and ongoing product piracy, about "unfair discrimination in favour of Chinese business" and barriers to market access in the service sector, in particular financial services (*World Bank News*, 12 December 2006; Third World Network, 2007). Additionally, the EU and the USA argue that the weak value of the Yuan has given China an unfair advantage on the world market, making its goods extremely inexpensive. Even after China revalued its currency in 2005, the EU and the USA repeatedly pressurized China to further appreciate the Yuan to curtail Chinese exports and allow for more imports. For these reasons the EU still refuses to recognize China as an open market and to grant market economy status.

The EU supported the social and economic reform in China, in particular the implementation of its WTO commitments with **trade-related co-operation projects** which complement more than 20 bilateral sectoral dialogues, from space technology to education, from enterprise regulation to environmental problems. The main purpose is to "explore new areas of common interest", exchange of know-how and "pave the way for business and other operators by eliminating potential regulatory obstacles".[2] This indicates a shift in the co-operation programme away from traditional development projects toward sectoral interventions with strong training, institution building and research components, for example round tables with business involvement in the Financial Services Project (European Commission, 2003). Capacity building on trade policy issues was supported with EURO 15 million for the period 2004–2009.

1.2. Another Great Leap, Flying Geese and a Tide that Does not Lift all Boats

The WTO accession gave another boost to foreign direct investments, merchandise trade and growth rates in China. It intensified the 'flying geese model' of capital and investment: China is at the receiving end of a fast relocation of labour-intensive industries, mainly from other cheap-labour countries, as well as capital-intensive industries from the North.

At the same time, WTO accession promoted a two-pronged competition with China on the global market: a race to the bottom and a race to the top (Guan, 2003:214f). To

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2 Financing for co-operation with China under the Country Strategy Paper 2002–2006 was put into action through the National Indicative Programmes (NIPs) and amounted to EURO 250 million. http://ec.europe.en/external_relations/china/intro/sect.htm (16.4.08) remain competitive with other cheap-labour economies, China strives for minimal production costs by keeping the wages for labour-intensive work low, by externalizing social and ecological costs and by increasing productivity (Chan, 2003). Low-priced export goods and an economy of scale make for a race to the bottom – a stiff price competition on the world market. This translates into a pressure on wages in other countries, in cheap-labour countries as well as in highly industrialized countries.

Simultaneously, China wants to climb up the value chain. Its interest in importing technology and know-how is to catch up with the technologically advanced economies in Asia, such as Japan and South Korea, and with the knowledge societies in the West. It wants to gain ground in higher segments of the market and to upgrade industries. This leads to the much-lamented product piracy and violation of intellectual property rights and to mounting investment in high-tech sectors to make for a technological take-off. China's spending on research and development is growing even faster than its economy. Its investment in higher education results in more than four million graduates annually. The rapid expansion of the research and development sector opens up opportunities for a third wave of offshoring after labour-intensive and capital-intensive production: in future high-skilled knowledge production could be outsourced to China as well.

Already in 2004, China became the world champion in receiving foreign direct investments. The massive increase in investment and expansion of industrial capacities resulted in an overheating of the economy with overcapacities and overproduction in a number of sectors. To correct the world-beating pace, the Government tried several times to control and limit investments and balance it with domestic consumption structure. It raised interest rates, supports domestic demands by consumer credits and raises wages in the new middle class, However, domestic and foreign strategies of investment reinforce each other in their obsession with fast accumulation rather than sustainability.

Additionally, the Government heavily promotes outward investment. Increasing requirements for raw materials and energy make Chinese companies 'go global' for overseas direct investment and look for cross-border mergers and acquisitions. Increased imports of raw material, oil and food items pushed prices on the world market to new peaks. The majority of China's Outward Direct Investment (ODI) flows to Hong Kong, the Association of Southeast Asian Nations (ASEAN) countries, Japan and South Korea. However, it is Chinese investment in Africa that attracts most European attention, because the EU feels that it loses hegemony in access to resource-rich regions, while the spread of western values, democracy and human rights is undermined by China's sudden outreach. Particularly since the China–Africa

> *"There is only one thing more frightening than China's exponential growth. It is that growth suddenly stalling or crashing."*
>
> **Peter Mandelson,**
> **London, 15 April 2008**

Summit held in Beijing in 2006, the Washington consensus of structural adjustment, trade liberalization and 'good governance' finds itself in an unprecedented competition with the Beijing consensus of state capitalism and political non-intervention.

In 2006 EU–China trade reached EURO 257 billion, with trade in goods growing by more than 150 per cent between 2000 and 2006. In 2008 China is expected to overtake Germany as the world champion in exports. Services are the fastest growing sector in China. After the WTO accession, the EU asked China in a number of General Agreement in Trade in Services (GATS) requests to "improve" the commitments made in 12 service sectors, in particular to eliminate restrictions on foreign entry, ownership (joint ventures) and national treatment, particularly in retail, finance and insurance, and telecommunications. In the service sector, EU exports to China expanded sixfold between 1994 and 2004 (European Commission, 2006a:5), and the EU had a surplus of EURO 1.7 billion in trade in services with China in 2006.

The most striking figures in recent EU–China trade relations, however, are the fast-growing trade deficit of the EU and the changes in investment. While European investment in China decreased, Chinese investment in the EU jumped fivefold.

	EU	**China**
Trading partners	1) USA 2) China 3) Russia	1) EU 2) USA 3) Japan
Trade balance(2007)	EU's trade deficit with China: China's trade surplus with the EU:	€170 bn €130.5 bn
Imports/Exports	EU exports to China: 2001: €30.5 bn 2006: €63 bn	EU imports from China 2001: €81.6 bn 2006: €191 bn
Main exports	EU's main exports to China 1) non-electrical machinery 2) cars and aircraft 3) chemical products	China's main exports to the EU 1) PC parts, mobile phones, cameras 2) textiles and clothing
Export in services	2003: €6.7 bn 2006: €12.3 bn	2006: €10.6 bn
Investment	2005: €5.9 bn 2006: €3.7 bn	2005: €441 m 2006: €2.13 bn

Source: Eurostat, http://ec.europe.eu/trade/issues/bilateral/countries/china/index_en.htm

Despite the Chinese leadership's claim to have a "socialist" market economy, intensified liberalization after WTO accession and the phenomenal growth rates resulted in a more unequal distribution. The wealth gap is widening. Geographical, development and income disparities are growing. In 2004, the average per capita income in Beijing rose by 12.6 per cent, while the standard of living in the countryside fell by 6 per cent (*World Bank News*, 22 February 2005). Between 2001 and 2003 the real income of the poorest 10 per cent of the population declined by 2.4 per cent, while the richest 10 per cent enjoyed a 16 per cent increase (*Financial Times*, 22 November 2006). The educational sector shows the same divide: while higher education increased significantly, it did so at the cost of basic public education in the countryside. Adult illiteracy increased between 2000 and 2005 from 87 to 115 million people (Wen, 2007). These findings give a blow to the neoliberal myth that liberalization is a win-win game and the assumption made by the Chinese Government that "a rising tide lifts all boats". Wen concludes that "too much growth, too little development" is the reality behind China's economic miracle.

The **11th Five-Year Plan,**[3] proclaimed at the end of 2005, is a response to the growing disparities and contradictions along this development path and to the social discontent articulated annually in nearly 90,000 local protests and demonstrations by various disadvantaged groups all over the country. The five-year programme hoisted the banner of a "harmonious society" to ease the social tensions. It set out an ambitious roadmap to expand Gross Domestic Product (GDP) by moving up the value-adding chain and advancing the service sector, and at the same time to spread wealth more evenly, stress development in rural areas and the West of the country, create more jobs and social security, and curtail pollution and energy waste.

However, the Government did not increase social investment, but promoted a market-oriented reform of the health and educational sector. Public spending on both sectors as a percentage of GDP is below the world average. High costs and privatization are barriers for poor households to access medical services and advanced education (Wen, 2007). These mechanisms contribute to the growing gap between rich and poor, urban and rural.

To balance the growing disparities between the prosperous coastal strip and the underdeveloped western and north-eastern regions, the Government tries to redirect domestic and foreign investments, in particular labour-intensive manufacturing to inland areas and relatively smaller cities, leaving higher-value-added activities like research, management, finance, insurance and design in the big cities.

3 *To distance itself form the concept of 'planned economy', the leadership called the Five-Year Plan this time a "programme".*

1.3. Global Europe and Competitiveness First

When the multilateral negotiations of the Doha Development Round at the WTO came to a stalemate, in October 2006 the EU launched a new trade strategy ***Global Europe: competing in the world***. It calls China a key area of action to safeguard the EU's external competitiveness. China had already earlier embarked on "exploring the route" of bilateral und regional free trade agreements (FTAs) (Zhang, 2006:422).[4]

The starting point for an intensification of trade relations is the assumption that "the EU and China benefit from globalisation and share common interests in its success… Europe and China can do more to promote their own interests together than they will ever achieve apart" (European Commission, 2006b:5). At the 9th EU–China Summit in September 2006 in Helsinki, leaders agreed to launch negotiations on a bilateral Partnership and Co-operation Agreement (PCA). In June 2007 the EU–China Joint Committee agreed on the terms of reference and announced the start of substantive negotiations of the new framework agreement. It will encompass the full scope of bilateral relations, including an update of the 1985 Trade and Economic Co-operation Agreement (TECA) and an enhanced co-operation in political and cultural matters; however, it is also vital to achieve broader social and environmental policy aims. It will build on the two EU documents published in October 2006: ***EU–China: Closer partners, growing responsibilities*** and the accompanying policy paper on ***EU–China trade and investment: Competition and Partnership***. China published only a single policy paper on its relations with the EU (Ministry of Foreign Affairs, 2003).

EU Policy Papers on its relations with China and agreements					
1985	1998	2000	2001	2003	2006
Trade and Economic Co-operation Agreement (TECA)	Communication: Building a Comprehensive Partnership	Bilateral EU–China agreement on WTO	Future Steps for a more Effective EU Policy	Policy Paper: A maturing partnership	Communication: EU–China: Closer responsibilities + Policy paper on trade and investment Competition and Partnership

4 As a "prelude to China's FTA campaign" at the end of 2004, China and ASEAN signed a letter of intention to form a free trade area within ten years. Presently, nine treaties are under negotiation, involving 27 countries and regions including Chile, Pakistan, Australia, South Africa, the Gulf states etc. Additionally, China is interested in trade agreements with Russia and North Korea (Zhang 2006:422; TSAI 2007b:15).

The *Global Europe* strategy marks a double shift in EU trade policies: 1) complementary to the multilateral negotiations the EU indulges in a new generation of bilateral FTAs, and 2) it promotes a clear-cut competition paradigm subordinating and redefining the development paradigm. For the sake of its 'competitiveness-first' goal the EU plans to aggressively advance issues which cannot be advanced in multilateral talks. Its priority is to gain a foothold in the emerging markets and the so-called "new areas of growth", such as services, investment, government procurement, and intellectual property rights. Services are called "the cornerstone of the EU economy…an area of European comparative advantage with the greatest potential for growth in EU exports." The EU's focus is on dismantling non-tariff barriers and domestic regulation. Additionally, it aims to ensure the necessary supply of natural resources and "energy security".

In compliance with the *Global Europe* strategy, the 2006 communication with China on trade and investment puts "competition" first, while in earlier policy papers on the EU–China relationship "co-operation" and "partnership" were the leitmotif. Now, the EU's main concern is China's growing competitiveness on "unfair terms", which in the EU's perception prevents "a genuinely reciprocal trading relationship" and distorts trade. Thus, "fair" and "unfair" have become new key words.

> *"Europe has to accept fierce competition. China has to ensure it is fair competition."*
>
> **Peter Mandelson**
> **Strasbourg, 24.10.06**

Additionally, it raises concerns about the sustainability of China's development path because of the wealth disparities, "social, regional and gender imbalances", and the enormous environmental costs. As the EU considers China's disregard for social and environmental standards as unfair competition, its co-operation programme is set out to support domestic reform, to promote corporate social responsibility, ensure energy supply and combat climate change. Offering advice and assistance with regard to social and environmental problems implies a kind of social and green superiority on the EU side.

However, the EU's core interest is to "seek tougher protection of the legal rights of EU companies" and "assist EU companies on the ground" (European Commission, 2006b:3).

- It assumes that China increases "unjustifiable non-tariff barriers", and European exporters and investors face "unreasonable" sanitary and health requirements as well as non-uniform application of laws.
- It demands adequate protection of intellectual property rights because they are crucial to the exercise of Europe's comparative advantage, and seeks to "end the forced technology transfers for European investors".

- It complains that many procurement markets remain closed to European business.
- It blames Chinese domestic regulations and policies of discriminating foreign operators, "imposing local content requirements …and unfairly aiding local industries".
- It opposes investment restrictions in key industries such as automobiles, petrochemicals and steel as well as in telecoms and financial services.
- It realizes that China has become a fierce competitor in the world market for natural resources and energy while it restricts access of foreign exporters to its own natural resources.
- In case trade frictions cannot be resolved through dialogue the EU threatens to use trade defence measures to protect its interests.
- It proposes that further dialogue should include decent work and social and environmental standards "by adopting European norms, eco-technologies and standards of corporate social responsibility".

A Study on the Future Opportunities and Challenges in EU–China Trade and Investment Relations 2006–2010, called the 'Competitiveness Study', suggests that EU business can draw on important competitive strengths in higher-value-added activities, in particular research and development, design, marketing, servicing, management, superior quality of goods and services, and financial strength (European Commission, 2007a). The study recommends EU business and investment to focus on:

- China's accession to the WTO Government Procurement Agreement;
- the retail sector: sourcing products from China for EU markets and foreign expansion into the Chinese retail market;
- tradable goods: focusing on gaining share in higher-end markets;
- the machinery sector: energy-efficient machines, power generators and renewable-energy-related equipment;
- chemicals and petrochemicals, including environmentally-friendly materials;
- information and communications technology equipment: competition on IT design rather than manufacturing of commodities;
- financial services: opportunities despite ongoing restrictions; and
  the construction sector, which is the largest in the world.

The two EU policy papers and the study on trade and investment relations with China are very much a brain child of the *Global Europe* strategy, and focus as much on non-tariff barriers, WTO-plus issues, new growth areas and reciprocity as it is done in the EU mandate to negotiate bilateral FTAs, for example with India, ASEAN and South Korea. In this context, the forthcoming PCA with China has to be seen as a crucial part of the EU trade offensive.

1.4. Development Assistance and Sustainability

Compared to trade and investment policies, development assistance has lost its significance. Official development assistance (ODA) was peanuts – EURO 300–400 million per year – compared to EU foreign direct investment in China which hit a high of EURO 5.9 billion in 2005 and fell to EURO 3.7 billion in 2006. The main motivation by the EU to continue ODA to China is to support China's transition to a market economy and sustainable development, and make it a strategic partner on a wide range of policy issues.

It is noteworthy that in 2006 an external evaluation of the EU's co-operation programme with China was critical of a lack of systematic integration of considerations on poverty reduction and climate change, and a lack of feedback from the projects into policy dialogues (European Commission, 2007b:Annex 3.10).

The ***Country Strategy Paper*** **2007–2013** depicts China as a country with dramatic poverty reduction and a significant contribution to the achievement of the global Millennium Development Goal targets. While China itself is emerging as a significant donor, in particular in Africa and Asia, the EU still considers it as a developing country with large income and regional disparities, vulnerable groups and massive environmental degradation. As a low- or middle-income country it is eligible for ODA. However, unlike traditional ODA recipients, politically and economically it has become a global player on the world stage.

Compared to foreign direct investment and due to the scale of the country, the ODA provided by the EU – indicative funding is EURO 224 million for seven years – has only a very limited impact. The objectives can be best achieved through close co-operation between donors and EU member states, and a focus on influencing Chinese policies in three priority areas:

1. support for China's reform by sectoral dialogues and trainings;
2. support in China's efforts to address global concerns over the environment, energy and climate change; and
3. support for China's human resources development.

Under the first priority, development assistance is designed as a flanking measure to economic and trade co-operation. Policy dialogues will be held on trade co-operation, civil aviation, financial services and social protection, sectors "where EU experience can provide added value". The programme aims at further development of China's legal and regulatory framework, including legal protection for foreign companies, of intellectual property and technology. Through this form of aid for trade, the EU strives to advance the process of legalization of economic and trade relations in

China. The goal is – as the ***Multiannual Indicative Programme*** for 2007–2010 [5] outlines – a strong "rules for trade" framework. China should become a "responsible" global player and increase involvement of civil society. "Gender, social and environmental issues" and good governance should be addressed as cross-cutting issues. Additionally, the programme on social protection aims to "strengthen social provision in order to minimise the social side-effects of economic reform, and contribute to poverty alleviation" (European Commission, 2007c:7).

The *Inception Report to the* ***Trade Sustainability Impact Assessment*** explores the potential to address common economic, environmental and social challenges in the context of trade in the future (EU–China Trade SIA, 2007a). It suggests that EU business should capitalize on its "green competitiveness", and identifies competitive advantages for EU business in the area of energy and resource-efficient machinery and production, renewable-energy-related equipment, sustainable land management and biodiversity protection, environmental services and environmental friendly technologies, organic food, and eco-tourism. Of the ten sectors covered by the report – from machinery and electronics to forestry – social implications are mentioned for the textiles sector only, because of the extensive lay-offs in the sector.

The ***Global Analysis Report*** of the *Trade Sustainability Impact Assessment* formulates the "baseline context for the PCA negotiations" (EU–China Trade SIA, 2007b). It questions the economic, social and environment sustainability of the Chinese growth model. Observing that the social gap is widening it speaks of a "two-speed China" in terms of urban and rural growth, income and social security, which comes along with demographic imbalances due to gender and age distribution. According to the report the environmental unsustainability of its energy- and resource-intensive development shows in the fact that China is the world's largest producer of municipal solid waste, the biggest contributor to global warming and faces alarming shortages of water and other resources. The report denounces the economic sustainability of the rapid investment-driven growth at the expense of human welfareand the growing trade imbalances, including that between China and the EU.

The *Global Analysis Report* perceives the PCA as an opportunity to address some of these imbalances in a bilateral framework. As priority trade-related areas for the PCA it identifies eight issues from trade in services to capital movements, and suggests five sectors – from banking to environmental goods and services – for further in-depth analysis related to sustainability. This report is the first of a series of "stakeholder-focused" reports for the EU–China Trade Sustainability Impact Assessment. It

5 Indicative funding for the four years is EURO 128 million.

is seen as an opportunity for stakeholders both in China and the EU to dialogue and to provide input into the negotiations. Representatives of governments and business – but no NGOs or trade unions – participated in the **stakeholder consultation** in Brussels in November 2007, while in February 2008 at the consultation in Beijing representatives of UN organizations and international NGOs, research institutes and business were present.

1.5. End of the Honeymoon?

The study *Future Opportunities and Challenges* calculated that in 2004 European exporters of goods lost export opportunities worth EURO 12.4 billion as a direct result of non-tariff barriers. In services the estimated loss accounted for EURO 8.9 billion. The study points at a certain "reform fatigue" in China and to a high level of "local patriotism" meaning that local administration and party cadres are keen to continuously forge industrial development and growth at any environmental and social costs, often disregarding WTO commitments, legal provisions and domestic regulations alike.

At the 10th China–EU Summit at the end of November 2007 in Beijing, the tone of the communication had changed considerably. The honeymoon after the WTO accession was declared to be over. Due to the EU's falling investments and a growing trade deficit, EU Trade Commissioner, Peter Mandelson, complained about "growing frustration" at Beijing's failure to crack down on the abuse of intellectual property rights and to dismantle regulatory barriers and investment restrictions for EU companies, as well as at state subsidies to Chinese exporters. A number of scandals concerning harmful and toxic product ingredients from toys to toothpaste had once again shaken the credibility of Chinese producers to meet quality standards. While EU investments earlier contributed to overproduction in key sectors and ignored the risks of overheating of the economy, the EU now asks China to curb overcapacities and to ensure sustainability.

> *"China failed to respond to a policy of co-operation and dialogue… To some extent, the Chinese juggernaut is out of control."*
>
> **Peter Mandelson, November 2007**

Mandelson suggested abandoning the earlier conciliatory tactics toward Beijing, align more closely with the USA in its more assertive policy and use trade law to hit back at China (*International Herald Tribune*, 6 November 2007). The European Commission calculated that European business loses an estimated EURO 55 million per day in trade opportunities because China maintains investment and ownership caps in many sectors such as banking, construction and telecommunications. It cited the telecom sector as an example of the protectionist culture: of 22,000 telecom licenses China granted since 2001, only ten went to foreign companies (European Commission, 22 February 2008).

However, a heated debate divided the EU corporate sector between producers and importers. Companies that produce, for example, textiles, bulbs or natural stone in European countries fear Chinese competition, while retailers and traders who import from China benefit from the low production costs. Orgalime, the lobby group for the European engineering industry, estimates that in the EU only 250,000 jobs depend on steel making, however, seven million jobs rely on imported steel. It is expected that in future the lobby of the importers will be stronger than that of the producers. This is an indicator for the restructuring of the European economy, a shift of focus from production to services, and for a growing dependency on the Chinese economy. The fierce rhetoric about concerns over unfairness of competition and sustainability covers up the still huge profits made by EU business with China.

The 10th China–EU Summit decided to establish a High Level Economic and Trade Mechanism to rebalance trade relations and overcome the tensions. This mechanism was launched in April 2008 in Beijing after the Chinese Government announced its readiness to talk to the exiled Tibetan Government.

Two other heated debates about China's authoritarian and undemocratic role have raised temperatures in the European Parliament and EU member states. The China Development Bank set up a **China–Africa Development Fund**, launched with $1 billion to finance Chinese investment and operation in Africa in the sectors of infrastructure, housing, water conservation and industrial parks. The fund will be expanded to $3 billion in the second phase and eventually to $5 billion. Beside its continued engagement in Sudan for oil, China supports the undemocratic government of Zimbabwe with investment in large projects and supply of weapons.

A report on "China's policies and its effects in Africa" was drafted for the European Parliament which accuses China of utilizing the lack of capacities and domestic industries in African countries for a ruthless exploitation of Africa's natural resources. Despite a warning that Europeans should not pretend to be the "better" colonialists and capitalists, the moral overtone of the report is quite hypocritical, based on the fear that the EU will lose its privileged access to resources in Africa, and that China will get access to the EU market through Africa. For example, without mentioning the adverse effect of EU second-hand clothes on local textile industries in Africa or the devastating impact of cheap agricultural imports from the EU on African agriculture, the report blames China for destroying local industries by a "textile tsunami".[6] As a way out of the fierce competition on the African continent, DG Development proposed a trialogue between the EU, China and Africa on "peace, stability and sustainable development in Africa."

Contrary to this criticism, African leaders praise China's investors' role in improving infrastructure and stimulating economic growth and play off Chinese and European investors and donors against each other. Abdoulaye Wade, president of Senegal, stated that "China's approach to our needs is simply better adapted than the slow and sometimes patronising post-colonial approach of European investors, donor organisations and non-governmental organisations" (*Financial Times*, 23 January 2008).

In March 2008, the EU reacted even more strongly to the human rights violation in Tibet after the demonstrations by monks against the oppression of Tibetan culture and religion and by young unemployed people against their exclusion from the new prosperity in China. China-bashing and Sinophobia reached a new peak. China rejected the EU's criticism once again as intervention into internal affairs and national sovereignty and as "dehumiliation".

EU Trade Commissioner Mandelson has been keen to calm down the China-bashing on economic and human rights grounds and the calls for a new protectionism. He suggests avoiding direct political confrontation, as he wishes to continue sitting at the negotiating table and still promotes the approach of 'change through trade' – contrary to other voices in the European Parliament and member states which assert that human rights should not be subordinated to economic interests.

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6 See http://www.europarl.europa.eu/meetdocs/2004_2009/documents/pr/697/697015/697015en.pdf, [accessed 27 November 2007] and the announcement of the public consultation; http://ec.europa.eu/development/icenter/repository/consultation6_16042007_EU/Africa/china/dialogue_EN.pdf,
see Guerrero/Manji 2008.

2. Chinese Transformation and its Gender Implications

Liberalization started in China in the agricultural sector by permitting individual production and sale to farmers. Unlike the 'shock therapy'-style economic reform in the former Soviet Union, liberalization was gradually extended to other economic sectors on an experimental basis as a kind of locally confined trial-and-error project, which would be discontinued or revised if it failed and quickly expanded if successful. The success story of export production started 1980 with the establishment of four Special Economic Zones (SEZs) in the Pearl River Delta and by granting foreign investment a legal status. From 1984 onwards, China was ambitious in expanding its export production in SEZs, and scaling up its industrialization and technological development. To attract more investment, foreign companies were provided with preferential tax treatment, freedom to import inputs and the right to retain foreign exchange.

Investments in labour-intensive manufacturing and assembly were the engine behind China's integration into the world market. In 1993, 82 per cent of foreign investors listed cheap labour as the main incentive for investing in China, 56 per cent mentioned tax concessions and 50 per cent access to the Chinese market (Asia Monitor Resource Center (AMRC), 1998:206). Export industries are highly gender-segmented economic areas. As in free trade zones in other countries of the global South, in labour-intensive sectors preference was given to women because of stereotypes such as 'nimble' fingers, patience and abilities to concentrate for long hours. Soon it was apparent that hard-working women – mostly young docile migrants from the countryside – were a comparative advantage which attracted foreign investment. The female-labour-directed investments and the feminized export industrialization, in particular in clothing, textiles, shoes, toys and electronics, contributed substantially to the amazingly high growth rates of 9 per cent per annum (Seguino, 2000).

At the same time, as part of the economic reform state-owned enterprises were dismantled and state-owned property privatized. The collapse of the state sector caused a massive gendered process of retrenchment: women, who had represented 40 per cent of the labour force of state enterprises, made up 60 per cent of the up to 40 million people retrenched in the past 15 years. They received fewer opportunities for training and re-employment than men, which resulted in the unknown phenomenon of unemployment. According to the World Bank, there is ample evidence of a feminization of poverty (World Bank, 2002:6).[7]

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7 *Chinese economic statistics and data on employment are inconsistent and seldom gender-disaggregated. This holds very much true for poverty indicators. The official Chinese poverty line is 25 cents income per day, far below the UN-drawn poverty line of US$1 per day.*

Those tendencies of gender differentiation in the economy and discrimination against women indicated a backlash against the socialist era of gender equality. Based on Mao's saying that "whatever a comrade can do, a female comrade can do as well", policies and laws were aimed at giving women a higher status. With the integration of women into the *danweis* – the labour collectives – the collectivization of reproductive work in the *danweis* (cooking, child care, health care, recreation etc.) and its rigid population control, the Socialist Party aimed at breaking up the old gender division of labour and the Confucian patriarchal gender relations. Gender roles were desexualized by a uniform dress code and hair style which actually implied a masculinization of women's roles.

> *"It is an ironic and embarrassing situation if, along with economic growth, gender equality were to deteriorate."*
>
> **Huang/Zhan, 2005**

However, the gender egalitarianism forced by the state and the party remained highly contradictory. Women's emancipation was equated largely to economic activity and was promoted for the sake of socialism and the nation. Women's nearly systematic exclusion from political leadership was an indicator that the gendered power relations had not really changed. Participation of women in state-owned industries and *danweis* was high but still asymmetrical. Women's battalions in steel production, mining and ship construction were set up, but no men were obliged to work in the kindergardens of the *danweis*. Similarly, the target of equal pay and equal recognition for all kind of work was not fully met. Most of the care work in private households was done by women, with a particular care role assigned to grandmothers who after retirement at the age of 50 were expected to take care of the grandchild(ren) so that the mother was able to continue working in the *danwei*.

> *"The imperative of competition increasingly takes precedence over the protection of equality rights… State affirmative action policies have receded while traditional gender stereotypes and values have re-emerged, including increasing gender discrimination in the labor market."*
>
> **The World Bank, 2002:14**

The still ongoing dismantling of the state-owned sector means that the retrenched workers not only lose their job and (small) income but, more importantly, also a complex system of social security and basic facilities from housing to health care. Liberalization, privatization and market competition did open new chances and liberties in the emerging labour markets but did not substitute the old 'iron rice bowl' regime of social provisions.

At the same time, the growing sex ratio at birth indicates that the transformation of the economy and society did not change the prevailing preference given to sons, particularly in the countryside. In the past decade, the ratio of newborn boys to girls rose by 10 per cent to 118 boys for every 100 girls, in some provinces however to 130:100. The millions of “missing women” – as Nobel laureate Amartya Sen called the phenomenon – indicates that the one-child policy has even reinforced the preference given to males, although the Government launched a ‘care for girls’ campaign and vowed to take tough measures to control sex tests of foetuses and femicide (Xinhua, 22 January 2007). On the other hand, in urban areas the one-child family makes parents spend a lot for education of girls as well as boys.

2.1. The Rediscovery of Gender Differences in the Market Economy

In the transformation process a re-invention of gender differences emerged as the labour markets became segregated and hierarchically organized according to a new valuation of work (Lau/Liu/Zhang, 1999). When retrenched from bankrupt state-owned enterprises, women were often sent into early retirement with “women go home” slogans. When retrained, they were re-educated to be ready for informal employment and trained in ‘female’ skills such as domestic labour. The majority of women are thus placed at the bottom end of the value chain and once again in care work.

> *“The femaleness of the workers had to be reinvented and regulated… Capitalist production in Shenzhen relies on gender as a basic constituent in developing a new system of work-place hierarchy. The rural women were imagined to be more obedient, tolerant and conforming to the factory regime.”*
>
> **Pun 1999:14,18**
> **Pun Ngai, a Hong Kong-based scholar worked in an electronic assembly line in the feminized export region of Shenzhen.**

The core workers in export manufacturing are young migrants from rural areas, dagongmei (‘working girls’), whose remittances back home help millions of rural households to survive at the subsistence level. Despite the new job opportunities in export industries, the rate of female employment in urban areas went down from 76.3 per cent to 63.7 per cent between 1990 and 2000 (Lipinsky, 2006:220). Liu Jieyu concludes that “the cost of restructuring has fallen upon women disproportionately” (Liu, 2007).

Between 1990 and 1997 the gender wage gap increased by 5 per cent in the countryside and by 7 per cent in the cities. According to UNDP it presently stands at 64:100 (UNDP, 2007/8). Ageism – discrimination based on age – in the labour market is much stronger for women than for men, so the employment rate of women is falling rapidly after the age of 40.

Due to the collapse of the danwei system and the privatization of public services, care work is relocated to private households and 'naturally' becomes a female task. With a child, the work–life balance is once again an individual problem. In the new urban consumer class, the institution of the domestic worker – taboo in the socialist era – is revitalized. This form of informal and invisible employment, in particular of migrant and elderly women, in the private service sector has spread fast. At least one-third of urban private households employ a domestic worker.

These developments caused the fall of China's Gender Development Index: in 1994, UNDP ranked China 74; in 2003 it had fallen to rank 83 (Beijing Today, 17 September 2004).[8] They resulted in an increasing refeminization of women's role in society, a resexualization of gender roles and a kind of rediscovery of gender differences. While the Chinese leadership claims to agree to principles of gender equality and equal opportunities, its top priorities are economic competitiveness and growth. For the sake of an increase in productivity, policymakers neglect proactive policies to prevent wage and workplace discrimination against women and to enforce women's rights.

The beauty economy and the case of Western cosmetics

In the 1990s, when gender differences were re-emphasized, new standards and images of femininity penetrated China, increasingly influenced by Western norms and models. Beauty industries were established from hairdressers to fashion magazines, from fitness parlours to plastic surgery, from a wedding industry to Miss contests. The beauty service sector is an expanding area for female employment, in particular self-employment, and attracts young women in particular. It employs an estimated 16 million of the country's labour force and is one of the most profitable and successful economic sectors.

The WTO accession led to the opening of the cosmetics market along with the spread of advertising and aggressive marketing. Imports of Western cosmetics grew fast, and the advertisement industry likewise. Apart from Japanese cosmetics, Western products such as L'Oréal and Oil of Olaz began to dominate the market. Transnational corporations from the West strongly influenced the promotion of this new consumer culture and lifestyle, along with the shaping of new concepts of femininity and new gender regimes in the transition to a capitalist market order. (Hopkins, 2007; Xu/Feiner, 2007)

Imitation of whiteness and westerness makes for the transnationalisation of

8 From 2004 onwards the rank went up once again.

beauty and feminity, alongside the transnational expansion of the respective markets and accumulation regimes. The commodification of beauty facilitates economic reform and the growth of highly competitive markets. In their recruitment strategies, service companies openly discriminate women upon age and appearance, and re-enforce the new norms in the employment market.

2.2. Open Door Policies and the Making of Classes and Gender

It has become a common believe that trade liberalization and foreign direct investment have a positive effect on women's employment and income in countries where unskilled labour is available in abundance. It holds true for China's entry into the global economy with labour-intensive manufacturing that cheap and docile female labour constituted a competitive advantage. Most of them were migrants from poor rural households who subsidized their families with their meagre income. In many rural households up to 50 per cent of the annual monetary income is transferred from 'peasant workers' – males mainly in construction work, females mainly in export production – in the cities to the countryside.

In the recent past, more technology was introduced and more capital-intensive factories and high-skilled, knowledge-based industries were set up in the prosperous coastal strip to upgrade production. This resulted in a new composition of the labour force and the creation of new social classes. While the proportion of female workers in manufacturing decreased from up to 80 to 60 per cent, a new class of formal workers or labour aristocracy – for example in the foreign-invested car industries, a high-skilled elite in the IT sector, engineers, managers, developers and researchers, and corporate executives – emerged, with the majority being male.

Foreign-invested firms pay higher salaries than state-owned and private domestic companies. However, the gender wage gap is largest in the most liberalized sector (foreign-invested enterprises) and smallest in the least liberalized sector (state-owned enterprises) (Maurer-Fazio/Hughes, 2002). Surveys done in foreign-invested companies, such as Nokia, revealed that working conditions in the factories were better than in local firms, but the foreign owners also took advantage of lax law enforcement in China and violated Chinese labour law regarding overtime hours, social insurance and democratically elected trade unions (AMRC, 29 October 2007).

Foreign-invested companies quickly aim at higher productivity and technological diffusion, which increase the demand for skilled labour. As gender is highly correlated with skills, women are segregated in less capital-intensive production, while men benefit more from jobs and higher wages for skilled labour in foreign-invested companies. This led to a marked increase in wage discrimination against women in low-skilled employment in export-oriented industries during the past decade (Braunstein/Brenner, 2007). The persistent industrial segregation by gender contradicts the neoclassical assumption that the gender wage discrimination would decrease on the road towards trade liberalization and growth.

Chinese and EU trade ambitions still converge in a strong interest to reduce production costs for the sake of capital accumulation and stimulation of growth. Presently, with dirty manufacturing being dislocated from the SEZs near the coast and investments redirected to the Chinese hinterland, a new territory for labour-intensive export production is opened up. Once again, cheap female labour is targeted for a competitive advantage, partly for labour-intensive production in textiles, garments and toys or the more capital- and technology-intensive manufacturing of mobile phones, TVs, PCs, and household equipment.

This progressive penetration of China's rural inland by the capitalist market economy and foreign investment is a reaction to a shortage of labour in the Pearl River Delta since 2003. Wages of workers on the assembly line had not been substantially increased for 15 years, while living costs in the coastal cities skyrocketed and wages of skilled labour had multiplied to EURO 500 (Wen, 2005). Non-payment of the minimum wage of less than EURO 50 per month, long working hours and often unpaid overtime, police harassment of migrants, sweatshop conditions with a high risk of accidents and occupational health hazards, and cramped dormitory accommodation caused 10 to 15 per cent of the migrant labourers to stay back in the countryside after the new year's holiday each year (World Bank News, 26 August 2004; The Economist, 13 March 2008). Thus, migrant workers voted with their feet against the miserable quality of jobs and the indecent work and wages.

The Government reacted by increasing wages, by giving migrant workers access to the new social security system for the first time and by shifting factories and investments to the hinterland. In 2007, 10 to 20 per cent of the 70,000 shoe factories in the Pearl River Delta closed down. Most of the business went into poorer interior regions (The Economist, 13 March 2008). There labour is abundant and docile, mostly young girls from villages, and production costs – wages, land, energy, and water – less than half, meaning that a woman at the assembly line would earn only EURO 35 per month. This salary would not help her to cross the UN-drawn poverty line of US$1 per day (Chan/Gu, 2006).

The new leap of liberalization is thus to a great extent another phase of female-based growth strategy and makes once again for the construction of a new working class in the latest Chinese and global division of labour. Export production and foreign investment may create new jobs for women; however, at the same time they create a new class of 'working poor'. Against the common focus on the quantity of jobs created by an export- and investment- oriented development path, feminist critique questions the quality of these jobs and the sustainability of this employment (Staveren, 2007; Lee 1998, 2007a, Pun 2005).

The share of agriculture in labour is still 42 per cent; however, its share of the GDP fell to 11 per cent. Imports of cheap agricultural products, such as subsidized cotton, wheat, soybean and cooking oil from the USA, under the WTO agreement resulted in an estimated loss of 720,000 jobs in the poorest regions of the country in 2005. After the accession to WTO the producer price of sugar decreased by 35 per cent due to annual imports of 1.6 million tons of sugar. The sugar price on the world market ranges below the Chinese producer price because of the EU's high subsidies (Oxfam, 2003). Since grains are increasingly imported and outcompete local land-intensive crop production, the traditional plots for grain give way to horticulture for exports and greenhouses, where most of the work is done by women (Financial Times, 9 December 2005).

Already in the 1990s, due to emigration by males, a feminization of agricultural labour took place (UNDP et al., 2003:60). Women concentrate in crop production and poultry; men in fishery, forestry and agricultural services. Contrary to this gendered division of labour, the distribution of land lease was gender discriminatory, meaning families with sons received larger allocations than those with daughters. Even after the more gender-just land redistribution in 2001, the land rights of women who marry into the husband's village and work on 'his' land are not clear.

The job losses in agriculture due to import liberalization are much higher than the current job creation capacities in agriculture through export production. Therefore, in the countryside, local governments compete for investment, ready to intensify the race to the bottom and neglect legal regulations and social provisions.

The emergence of labour markets and the export production show that in China nowadays gender plays a significant role in the making of new labour regimes and in the "politics of making and unmaking of classes" (Lee, 2005:6; Dai, 2003).

"China, in the 90s of the 20th century, began to undergo a drastic process of class differentiation, while its social institutions were restructuring and the intervention of the globalisation process in Chinese society was deepening. Women have undoubtedly been chosen to be the social group to be sacrificed in this process."

Dai Jinhua, 2003:138

2.3. Discrimination against Women – Global Patterns, Local Practice

In the intensified process of 'structural adjustment' to a market economy, some global patterns of gender inequalities and discrimination against women in the labour market occurred in Chinese society that can be attributed to the neoliberal restructuring of economies all over the world:

- informalization of employment, as well as self-employment or one-woman entrepreneurship;
- feminized labour-intensive export production;
- a gender gap in wages and social security, in particular pensions; and
- a feminized care network of paid and unpaid work (Jin, 2002:13).

These global patterns are framed by the neoliberal slogan of **'self-responsibility'.** The Chinese version of this framework are the 'four selves' propagated by the All-China Women's Federation: self-respect, self-confidence, self-reliance, and self-improvement. The package aims at re-educating women and teaching them that they cannot rely any more on the Socialist Party or state to take care of their well-being from the cradle to the grave. With slogans like "Be a self-empowering and self-reliant retrenched person" (Dai, 2003:148), they are trained to strive for economic independence and entrepreneurship. The ideology of 'self-responsibility' makes them attribute success or failure to themselves rather than to the economic and social conditions (Zhang, 1995:39). The majority of the women workers who faced redundancy in the transition process found some new work, albeit mostly informal, self-employed and low paying (Liu, 2007).

On the one hand "well-paid jobs show a lack of female personnel, while positions with comparatively low income display a high proportion of women" (Government's 2002 report on Population and Labour, quoted in: Jin, 2002:12). Female graduates complain about a recruitment discrimination they face which seems to reflect a global pattern of corporate hiring policies: even with better degrees than male students, young women face more problems in getting a job.[9] On the other hand, some of the 'socialist achievements' with regard to gender equality in the economy are translated into the following facts and figures:

- the rate of female economic activity of 69.2 per cent is still higher than in most European countries;[10]

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9 Employers fear a loss of working time with young women workers, not only because of pregnancy and delivery (this would happen only once due to the one-child norm), but additionally it is normal for a young married woman to have several abortions per year because abortion is often the only available form of birth control in China.

10 In 2005, the average rate of female employment stood at 56 per cent in the 27 EU countries. See: European Commission (2007) Report on Equality between Women and Men, Brussels.

- more women get education in so-called male skills and employment in so-called male professions compared to most Western countries; and
- more women than in most Western countries are in leading positions. According to the Chinese federation of female entrepreneurs, women manage 40 per cent of private companies. In foreign corporations, such as in financial services, high-skilled young women enjoy good employment opportunities.

Women encounter new job opportunities in the expanding **service sector**, however, again particularly in informal employment. Already in 2003, in urban areas irregular employment accounted for more jobs than traditional formal employment (Ghose, 2005:27). Besides the growing sector of casual and precarious employment in private households, according to official statistics, women are strongly represented in the following service sectors:

2003	Health	Catering	Tourism	Education	Financial Services
Percentage of female employment	58 %	55.5 %	47.5 %	46.1 %	37.8 %

The case of financial services[11]

Countervailing trends prevail in financial services. While the state-owned banks lay off hundred of thousands of employees all over the country, the private insurance sector is fast expanding and employs one million sales agents who walk from door to door. More women than men are engaged in insurance sales. Domestic and highly localized insurers recruit a majority of laid-off female workers in their forties as sales agents because of their communication skills and their credibility due to their 'housewife' look, which sells well outside the big cities. In China, sales agents are categorized as self-employed, meaning they are deprived of benefits such as pensions and medical insurance. They work part-time and on commission, and can subcontract agents to work under them. Young women and, in particular, young men tend to join joint venture and foreign insurers, such as the German-invested, high-profile Allianz-Dazhong.

The earnings of sales agents are below average. They are told that their income depends on their working hours, on individual self-discipline and work motiva-

11 *This paragraph is based on own research done on the insurance sector, in particular the domestic insurer Ping An and the foreign-invested company Allianz-Dazhong in 2004 and on Cheris Shung-ching Chan (2007).*

tion. Many women claim that they find it difficult to "make money out of friends' pockets". The training they receive at foreign-invested companies aims at rationalizing their sales techniques, using Western labour logic and marketing attitudes. However, because of small earnings and psychological stress, the turnover is high in insurance sales forces. The agents with the best sales performance are those who adjusted to the new market discipline, work around the clock and are unemotional and aggressive in exploiting personal relationships in financial transactions.

The new social security system covers the formal sector in urban areas only. It disadvantages women, because women are likely to work informally and as self-employed, earn lower wages and retire earlier than men. In 2003, of the 250 million formally employed urban workers only 60 per cent were covered by a pension system, only 43 per cent by a health scheme and only 17 per cent by accident insurance. A survey by UNDP et al. found a considerable gender gap in social security of 12–22 per cent fewer women being insured than men. The health care reforms have significantly worsened women's access to health care, and the rising costs reinforced gender inequities in access to basic services, closely linked to socio-economic inequalities (Chen/Standing 2007).

"Welfare based on employment rather than on universal citizenship… means that women are more likely than men to fall through the cracks of a social safety net."

Lee Ching Kwan, 2005:9

This adds on to women's vulnerability and their risk of old age poverty (UNDP et al., 2003:84, 88, 192f). It is only since 2006 that migrant workers – because of the local registration, the *hukou* system[12] – have been allowed to participate in the social security system at their place of work. However, it is still difficult for migrants to get access to public health care in the cities or to public schools. They often have no choice but to go to costly private clinics. This is a heavy burden on women for whom abortion is the prevailing method of birth control.[13]

Many young migrant women are interested in staying in urban areas and getting an

12 The hukou system is a registration at the place of residence, which gives citizens a right to live, work and to social security only at his/her place of original residence. It was established in 1958 to prevent rural–urban migration and progressively relaxed from 1984 onwards but has not been abolished. Presently an estimated 150–200 million people with a rural hukou migrated to cities for work.

13 The pill is not made available largely in China. Frequent abortions are the prevailing form of family planning in China, putting a heavy burden on women's health. A lot of advertising for private clinics is to be found in the SEZs. The price for an abortion is around EURO 50 – a month's salary for a migrant worker on the assembly line.

urban *hukou* by marrying an urban man. To return permanently to the countryside would mostly mean marrying into another village.

The disparities between rural women, migrant workers, domestic workers, high-skilled students and women in management positions are growing, not only in terms of income but also in terms of identity and subjectivity. A study from the end of the 1990s revealed the rural per capita income is one-seventh of migrant workers' earnings in foreign-invested firms, while at the same time migrant women workers' annual earnings are half the annual income of urban women (Berik/Dong/Summerfield, 2007).

Women from the urban class of the newly rich and super-rich are proud of not needing to work. This is partly an ideological reaction to the work they were 'forced' to by the State in the socialist era – a reaction to be found in many post-socialist societies. Additionally, both men and women from ethnic minorities experienced larger declines in the labour force than Han[14] (Maurer-Fazio/Hughes/Zhang, 2007). All these tendencies reinforce social differentiation among women.

The Just-in-Time Work Regime in the SEZs

Most of the migrant workers do not have a labour contract and are not covered by any social insurance. Although Chinese labour laws stipulate that overtime must be limited to a maximum of 36 hours per month, an average working day lasts 12 to 14 hours, seven days a week. Just-in-time availability of the workers is ensured by accommodation in crowded dormitories close to the factories. Thus, the dormitories are part of the authoritarian labour regime.

Overtime payments and the piece rate system are not transparent to the workers. However, since the minimum wage is very low, workers are keen to do overtime to earn more. Migrant workers are unable to send money home if they do not do overtime. Thus, low wages create a dependency on overtime. Overtime work is a constituent of the just-in-time regime of product delivery.

When Mattel reduced its orders from Chinese factories after the scandal about toxic and dangerous toys, the workers only worked a few hours per day without knowing why, and were desperately waiting for more work to do.

Workers get fined for mistakes and for giving 'wrong' answers to factory auditors. After a few years of over-intensive labour, most of the migrant workers leave the factories, suffering from burn-out and health hazards.

(Chan, 2006; Au/Nan/Zhang, 2007)

14 *Han Chinese are the ethnic majority group constituting 91.5 per cent of the population. The Chinese constitution prohibits discrimination against minorities, and the Government uses preferential policies and measures to prevent discrimination against ethnic minorities, for example in its population policies, education, and hiring.*

3. Social Standards and The Labour Regime in Manufacturing

With regard to social standards and labour rights, both sides – China and the EU – manoeuvred themselves into contradictions. In its official communication with China and the two policy papers the EU argues in a normative way, meaning that only if environmental, social and safety standards are enforced, will competition be considered fair. It complains about the growing wealth gap and regional disparities in China as well as social and gender imbalances. It asks for "close international co-operation" on issues of energy, environment and climate change as well as on "international social standards" such as corporate social responsibility, decent work and social security. EU corporations are encouraged to take up a model role by "adopting European norms, eco-technologies and standards of corporate social responsibility in their operations in China" (European Commission, 2006a,b).

However, when it came to improving the existing labour laws in China, EU-based corporations were very reluctant to agree. The new labour contract law stresses written contracts, an open-ended contract after two fixed-term contracts, and compensation in case of redundancy. It still does not ensure freedom to organize nor a right to strike. In 2006, a public debate on the draft law was encouraged, and US- and EU-based transnational corporations joined the debate. The EU Chamber of Commerce, representing 1100 EU-based companies in China, acknowledged that the law stems from labour laws in Europe. Based on experience in European countries, the Chamber of Commerce felt, however, that the law tends to "over-regulate the employment relationships". It proposed more flexibility "to apply to various business situations". In particular in the service sector it favours operation on a flexible schedule to reduce costs. This should apply to lay-offs in the same way, so that companies would be able "to preserve their business interests". It was revealing that the then president of the EU Chamber of Commerce, Janssens de Varebeke, gave a warning in a letter to the People's Congress, saying that rising costs of production might force foreign enterprises to rethink new investments in China (Global Labor Strategies, 2006). US and EU companies threatened to relocate production to Vietnam and other low-cost Asian countries.

European Employers' Federations, for example German companies, oppose the introduction of an international norm for social accountability, called ISO 26000, by the International Organization for Standardization in Geneva because they are unwilling or unable to make sure that in the whole production and supply chain social and ecological standards are observed, such as freedom to join independent trade unions, collective wage bargaining etc.

Before the new labour law came into force in China at the beginning of 2008, many enterprises, domestic as well as foreign-invested, tried to circumvent it. A negative example was set by Huawei, China's largest producer of telecom equipment. It asked 7000 of its long-term employees to resign voluntarily, receive compensation and then apply anew for a job so that they would be classified as 'new' employees.

The ***All-China Federation of Trade Unions*** (ACFTU) is in charge with enforcing the law. However, being the only legally recognized trade union and a prolonged arm of the party, its crucial task is to harmonize relationships between management and labour and not to represent genuine workers' interests vis-à-vis the employers (Taylor/Chang/Li, 2003). In the industrial sector the Government urges firms with more than 25 employees to accept a representative of the ACFTU and instructs state-owned enterprises to "fulfil social responsibilities". Any labour activism outside of the ACFTU faces brutal repression.

With new instructions on Corporate Social Responsibility and the new labour law, the Chinese Government reacted to the many protests and strikes all over the country. Annually, around 90,000 'incidents of public order disturbances' were reported officially. Immediate causes for public protests are the corruption of officials in the countryside or of corporate management, unpaid wages or pensions, mass retrenchments or evictions due to dam construction or development projects, and health hazards because of frequent accidents or use of toxic materials in industries, mining and construction work. However, the state's role remains contradictory between the protection of people's rights and the strict control over them, in particular in terms of labour regulation and social reproduction, for the sake of productivity, growth and social stability (Lee, 2007b).

Monitoring in Chinese subcontracting factories which supply to transnational corporations revealed that in many cases enterprise managers were planted as representatives of the trade union, that double book-keeping was common, and workers got fake pay slips which showed correct remuneration of overtime. They were instructed to give incorrect answers when auditors turned up in the company to monitor codes of conducts which are widespread among foreign corporations and part of their marketing policies. The suppliers were willing to offend against the codes for the sake of just-in-time production requirements, and local governments are deliberately reluctant to supervise and get bonuses from prosperous enterprises in return. (*Financial Times*, 21 April 2005).

3.1. The Case of Textiles and Clothing

On 1 January 2005, the end of the 30-year-old Multi-Fiber Arrangement (MFA) lifted all quotas on imports of textile and apparel products for countries of the South to the rich markets of the North. However, according to the MFA, until 2008 countries could apply ‘safeguard quotas’ which restrict the annual growth of Chinese imports to 7.5 per cent to limit the competition for domestic production. When those safeguard quotas are eliminated, China is likely to produce more than half of the world’s textiles and garments, and the estimated 15 million jobs in the Chinese textile sector will increase by 3.8 million (UNDP et al., 2003:205).

The textile sector is a showpiece of how the strategies of European retailers of buying and selling determine the working conditions in the factories and sweatshops in cheap-labour countries. The old system of a winter and a summer collection in shops has made way to a system of placing orders according to customer demand. If a product sells well, retailers place more orders – so-called ‘efficient consumer response’. The lead time is short and makes overtime, night shifts and subcontracting necessary. Retailers advance the international price race to the bottom by methods of ‘online reverse auction’, which allows bidders to underbid each other online.

Additionally, the ‘flying geese model’ of investment and China’s competitive advantage have strong ramifications for the global labour markets, and on investment and trade in many countries of the South and the North. While the first phase of offshoring in the 1970s led to the closure of textile industries in Europe and to the retrenchment of millions of female workers, the fast shift of subcontracts in manufacturing to China has resulted lately in a de-industrialization and a defeminization of the labour force in other export-oriented countries of the South. At the beginning of 2005, according to the International Textile, Garment and Leather Workers’ Federation (ITGLWF), 25,000 jobs were lost each in Cambodia and Sri Lanka. For the sake of competitiveness in Bangladesh the 72-hour week was legalized (www.maquilasolidarity.org).

The comparative advantage of China in the textile and clothing sector is complex. Apart from the complete product cycle, modern technology, and recent improvements in quality, it consists of cheap hard-working female labour, increased productivity and enormous economies of scale. Hourly wages of Chinese textile workers are higher than those of their counterparts in Bangladesh, Indonesia, Vietnam, India and Pakistan; however, in China the piece rates are lower because the Chinese workers are more productive[15] (Ferenschild/Wick, 2004:24). Although a code of conduct was introduced by the Government in the textile and clothing sector in 2005 and signed by 170 Chinese companies and two major foreign investors, workers in the sector point out that they did not experience any substantial improvement regarding work conditions and wages.

In 2005 China’s textile exports to the EU and the USA increased by 50 per cent, while

15 In 2002, Chinese seamstresses earned only 28 to 45% of the hourly wage of those in Latin-American prices declined by 30 to 50 per cent. Both intensified their complaints about trade distortion, plant closures and job losses in their countries, and their questioning of the grim working conditions on the shop floor in China. In 2005, increased imports from China were said to put 165,000 jobs in the EU at risk. In August 2005, millions of pairs of trousers and sweaters piled up at EU customs and were not allowed to get to the shops which had ordered them. The European Commission became trapped in a paradox situation between European textile producers, particularly in southern European countries, who are outcompeted by the cheap Chinese imports, and European retail companies, in particular from northern European countries who order and import clothing produced in China. After China agreed to observe the protectionist safeguard clause vis-a-vis the EU and to restrain its imports until 2008, the goods which were stuck at the borders were allowed inside. The EU demands better access to the Chinese market for the European textile industries which do not compete in mass production but which moved up the value chain by investing anew in technology and quality.[16]

All through this trade war, China was called in Europe the biggest winner of the MFA phase-out. However, the Chinese perception is different: with regard to employment the prevailing feature in the country is retrenchment from state-owned textile enterprises and a high rate of unemployment. The official news agency Xinhua complains about a "new quota era" and "protectionism" imposed by the EU and USA and more generally about an increasingly "hostile trade environment" for Chinese companies (Xinhua, 11 December 2006). The Hong Kong-based *Globalisation Monitor* rightly hints at the fact that foreign companies directly benefit from the Chinese expansion of exports because they account for one-quarter of all export earnings from textile products. Exporters of textile machinery gained a lot from the Chinese ambition to upgrade production: Germany's exports of textile machinery, in particular spinning machinery, hit a peak of EURO 1 billion in 2006. Taking a socially more differentiating look at the wins and losses, it appears that companies – Chinese, EU and other foreign investors – are "winners, while workers are losers, albeit to different degrees under different time frames" (Au, 2006).

3.2. Social Unrest and Disharmony

In the recent past, SEZ workers started to make a difference. A new labour activism built up, mostly in the Pearl River Delta after the much-lamented labour shortage occurred. Still, the protests against appalling working conditions and despotic facto-

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16 The European Commission negotiated with China a double-checking surveillance system for 2008 which monitors textile imports before they leave China.

ry regimes are localized and spontaneous, rather than organized across factories and based on class consciousness. However, they not only increase in number, but they get more radical and become increasingly public (Chan, 2008). Workers block highways to attract public and media interest, they confront police outside the factory, and they write petitions to the local administration. It is obvious that workers have gained in terms of confidence, bargaining power and awareness of their rights. Women workers have already come to the conclusion: "Big strike – big improvement; small strike – small improvement; no strike – no improvement", meaning it is worth struggling for one's rights. Apart from the collective struggles against despotic factory regimes and frequent accidents, individuals go to court using the law as a tool in their struggles (Au/Nan/Zhang, 2007). Often, solidarity is constructed in the context of ethnic, provincial and language identity in the dormitories (Lee, 1998; Pun, 2005). Since the inflation rate, particularly of food items, went up in summer 2007 – an unknown phenomenon in China – protests against wage arrears, non-payment of minimum wages and overtime became more frequent. Eighteen thousand workers of the German-funded firm FRIWO, a subcontractor for Nokia, demonstrated in the streets of Shenzhen for better payment. Apart from wages and compensation, health is an important entry point for mobilization.

However, although new labour activist groups that are based outside the factories are not allowed to register as trade unions, some have registered as a cultural NGO or as a co-operative. They face a lot of repression in their daily support to the labourers. The Chinese leadership reacts increasingly nervously about networking between factories and co-ordination on a regional and national level. News about resistance to the restructuring of the economy and its high social and environmental costs are hushed up. Activists are detained in camps, and there are regular crackdowns on their offices and their websites (Chan, 2008).

Chinese Working Women Network (CWWN) started its empowerment work with women workers in Shenzhen after a fire in a Zhili toy factory killed more than 80 workers, all but two women, in 1996. It runs a hotline on health and safety issues and trains women on occupational health and legal rights. It provides a cultural space, trains and sets up workers' committees in the industries to monitor codes of conducts, promote corporate social responsibility and articulate labour rights. It set up collective purchasing networks in dormitories and a shop which provides for the needs of migrant women.

In 2005 it joined a campaign for a living wage initiated by the Bangkok-based Committee for Asian Women (see www.caw.org) in nine Asian countries.

Additionally, a new type of advocacy group is slowly emerging – mostly initiated by environmental and development-oriented groups – that works on global players and international policies, such as the China WTO network and a working group on the international financial institutions.

Transnational solidarity is not getting easier, as workers in different countries are made each others' enemies and seem to steal each others' jobs. In most countries, trade unions' struggles against the downward pressure on wages, standards and jobs have become futile. However, new forms of organizing labour and women's empowerment are explored, different from the conventional trade unionist model. Increasingly, links with transnational networks are developing. One example is the co-operation with the Clean Clothes Campaign in Europe, which addresses transnational corporations to make sure that codes of conduct are adhered to all through the production and supply chain. Another example is the transcontinental NGO network, Make it fair, which wants to cover the whole production and disposal chain of the IT industries (www.makeitfair.org). The campaign 'Play Fair 2008' raises concerns over core labour standards in the production chain of licensed products for the Olympics. In the EU, a number of NGOs started to challenge their governments about procurement of products from China, from computers to natural stones and uniforms. While targeting EU actors in particular, the civil society organizations involved must avoid joining the stereotyped China-bashing in the Western media as a voracious dragon and rather try to engage with new civil society forces in China.

4. Conclusions

After exploring the topical trade and investment policies between the EU and China and their gender-specific effects on the 'socialist' market economy in China, a key question remains: whether the EU's concerns about economic, social and environmental sustainability included in the policy documents can change development in China for the better. How powerful and effective is the concept of 'change through trade' on social, regional and gender inequalities, or regarding environmental degradation, resource exploitation and energy waste?

The European Commission faces a broad range of battlefields while aiming to secure competitiveness of European business in the global economy: it wants to ensure access for EU companies and investors to the Chinese market, it wants to control and restrict the growing flood of imports of goods manufactured or assembled in China, it wants to compete with China in Africa regarding resource exploitation, and it has to balance the countervailing interests within European business, in particular between producers and traders. Contradictions are striking between the political rhetoric about social and environmental concerns and the reality of EU business in China, which is first and foremost governed by its interest in legally protected expansion and profit making. The EU trade and investment policies apply double standards. On the one hand, they attempt to protect EU business and its very interest in efficiency and profitability by the rule of law in China, disregarding the adverse social and environmental effects of this corporate-driven growth path. On the other hand, they delegate the responsibility for sustainable economic growth, social standards and climate protection to the Chinese Government, and appeal to its 'fairness'. Due to the competitive advantage of EU companies in environmentally friendly and resource-saving technology, it seems to be possible to link economic interests to environmental concerns. However, regarding issues of social, gender and regional inequality, EU trade and investment policies do not have any answers to give.

The second part of this paper explored how China's 'open–door' policies implied a rediscovery of gender differences and used gender as a constituent in the establishment of new labour regimes and as a significant marker in the creation of new social classes in the post-communist era. After China's WTO accession these processes are increasingly driven by a complex interaction between domestic policies, and foreign trade and investment policies. The long-standing claim of socialist policies for gender equality became subordinated to the imperative of fast economic growth. Presently, the Chinese leadership is torn apart between its prevailing interest in economic growth and wealth, spreading social unrest by groups who are marginalized or excluded from welfare, and the pressure exerted by the USA and the EU.

Civil society organizations concerned about development issues, social justice and gender equality increasingly challenge the EU's and China's trade race by a dual strategy of engagement. They question EU trade and investment policies focusing on competitiveness and ensuring the corporate rights of European business in China, and they highlight their contribution to growth and development dynamics which are unequal, unsustainable and unjust. At the same time, they broaden opportunities and create space to exchange knowledge, build civil society alliances and network with people in China.

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Rue de la Science 10 | 1000 Brussels | Belgium
Tel.: +32 2 545 90 70 | Fax: +32 2 512 73 42 | info@wide-network.org | www.wide-network.org