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China and the Transformation of
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Edited by HO-FUNG HUNG

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China as an Emerging Epicenter of World Labor Unrest

BEVERLY J. SILVER AND LU ZHANG

A common theme in the literature on globalization has been that the fast growth of manufacturing in China has sounded the death knell for workers' capacity for collective resistance in both the Global North and Global South. With the mobilization of China's vast reserves of cheap and disciplined labor, it is argued that a "race to the bottom" has been unleashed, producing an endless downward spiral in workers' power and welfare.

Notwithstanding its popularity in the literature, the thesis that capital mobility produces a straightforward race to the bottom is suspect on theoretical-empirical grounds. Rather, the historical pattern is one in which capital does indeed recurrently relocate geographically in search of cheaper or more docile labor but ends up creating new working classes and new rounds of labor-capital conflict in each favored site of production. Whether we look at the history of the diffusion of mass production in textiles globally in the late nineteenth and early twentieth centuries from its origins in the UK (Silver 2003: ch. 3) or the diffusion of mass production of automobiles in the second half of the twentieth century from its origins in the United States (Silver 2003: ch. 2), a recurrent pattern is visible. To put it in a phrase: contrary to the race-to-the-bottom thesis, our counterthesis is that *where capital goes, labor-capital conflict shortly follows*.

WHERE CAPITAL GOES, CONFLICT FOLLOWS

The contemporary Chinese case, we argue, provides empirical evidence in support of this counterthesis. The mass movement of capital into China and the deepening commodification of labor since the mid-1990s have been accompanied by a rising

tide of labor unrest in China. According to official Chinese government figures, mass protest increased from ten thousand incidents involving 730,000 protestors in 1993 to sixty thousand incidents involving more than three million protestors in 2003. Moreover, the number of cases brought by workers before the official labor arbitration committees increased steadily from seventy-eight thousand per year in 1994 to more than eight hundred thousand per year in 2003 (White 2007).¹

The vast majority of the mass labor protests in the second half of the 1990s were carried out by workers being laid off from state-owned enterprises. In 1994, an enterprise restructuring law was passed, allowing state-owned enterprises to carry out mass layoffs as part of an effort to bring production processes in line with international competition. This constituted an attack on established ways of life and livelihood of the urban working class that had been created during the Mao years. The smashing of the “iron rice bowl” livelihood guarantees precipitated a wave of factory occupations and street protests in “China’s rustbelt” (Lee 2007). To put it differently, these were protests by workers on the “destructive” end of the Schumpeterian process of “creative destruction,” engaged in what we might call Polanyi-type protests as the foundations of their class and their communities were being “unmade” (Silver 2003).

In the second half of the 1990s, there were few signs of open protest by the young migrant factory workers drawn to the coastal areas from the countryside. These migrant workers were generally thought to be part of an inexhaustible supply of cheap labor waiting to be tapped in China’s rural areas. As such, most observers predicted that it would be a long time (if ever) before they would be seen openly protesting their wages and working conditions. When an “unprecedented series of [strikes] and walkouts” hit factories in China’s booming Pearl River Delta in 2004, it not only “jolted foreign and Chinese factory owners” (Cody 2004), it also constituted a direct challenge to the dominant race-to-the bottom narrative. Indeed, the movement of capital into China has created a new and increasingly militant working class—the outcome of the “creative” side of the process of creative destruction.

While many observers have discounted the mounting labor unrest in China as localized, apolitical, “cellular” activism (Lee 2007), we argue that it is a mistake to underestimate the potential impact of these types of struggles. Indeed, the key theoretical insight of Frances Piven and Richard Cloward in *Poor Peoples’ Movements* was precisely that many of the gains made by such movements do not come from the establishment of formal organizations oriented toward the capture of state power. Instead, they are a result of concessions wrung from the powerful in response to widespread, intense, “spontaneous” disruptions from below, in response to the threat of “ungovernability.”

Indeed, by the turn of the century, the mounting localized, apolitical, and spontaneous labor struggles emerging out of both sides of the creative-destructive process (together with an escalation in social conflicts over land rights and environmental degradation in rural areas) began to raise the specter of emergent ungovernability if China continued along the same development path it had been taking since the mid-1990s. This fear has been one of the key factors propelling the Chinese central government toward introducing significant changes, first in rhetoric and later in concrete social policies. Between 2003 and 2005, the central government and the Chinese Communist Party began to move away from a single-minded emphasis on attracting foreign capital and fostering economic growth at all costs to promoting the idea of a “new development mode” aimed at reducing inequalities among classes and regions as part of the pursuit of a “harmonious society” (for example, see *People’s Daily* 2005). Likewise, concerned about rising unrest and the potential for “social instability,” the official trade union, the All-China Federation of Trade Unions (ACFTU), amended its constitution to “make the protection of workers’ rights a priority” in 2003 (Chan 2003); by 2007, Hu Jintao was making speeches about the importance of safeguarding “the legitimate rights and interests of workers” (Xinhua 2008).

By 2007, it was also becoming clearer that changes were moving beyond the rhetorical level. The most important concrete manifestation was the new Labor Contract Law that went into effect on January 1, 2008. The new law, among other things, enhances job security, putting significant restrictions on employers’ rights to hire and fire workers without cause. It also strengthens the role of trade unions. The new Arbitration Law, which went into effect in May 2008, allows workers to bring cases against their employers to the courts free of charge. And in 2006, the ACFTU, frustrated with Wal-Mart’s refusal to allow the official trade unions into its stores in China, initiated an unprecedented grassroots mobilization of workers in Wal-Mart stores—a widely publicized (and eventually successful) campaign that was touted by the ACFTU as a model for bringing effective unions to other recalcitrant workplaces in China (*Business Watch* 2006; see also Chan 2006).

There is also evidence that the new Labor Contract Law is being taken seriously by the central government and, as a consequence, large employers. When Huawei, a large Chinese-owned technology company, called in all workers who had been with the company for more than ten years and asked them to resign voluntarily and then sign new employment contracts as a ploy to evade the law’s lifetime employment guarantees for long-time employees, the central government intervened to stop the move, and the company received widespread negative publicity in the mass media (ChinaTechNews.com 2007, *Global Labor Strategies*

2007). In January 2008, when a large automobile assembler sought to use temporary workers to staff an entire plant, the plan was rejected for fear of coming into conflict with the provisions of the new Labor Contract Law.²

In February 2008, the *Wall Street Journal* pointed to the new balance of power between workers and employers in China. Summing up the judgment of employers, the *WSJ* concluded that the new law “has shifted bargaining power in favor of employees and raised awareness of rights among workers,” ushering in a new era of higher costs of production (Fong and Canaves 2008).

An analogy between the 2008 Labor Contract Law in China and the 1935 National Labor Relations Act (the Wagner Act) in the United States is instructive. In both cases, government was responding to the threat of social instability posed by mounting labor unrest, on the one hand, and the threat of economic instability posed by a more or less open “underconsumption crisis,” on the other hand. In both cases, the new legislation sought to specify and expand workers’ rights while channeling unrest into formal legal (routine) mechanisms.³ We know that the National Labor Relations Act in the United States served as a catalyst for a major nationwide wave of strikes in 1936–37 and that the strike wave fundamentally transformed the industrial-relations environment of the United States, as workers felt encouraged to stand up for their rights in the face of employer intransigence. It is not implausible to predict that the 2008 Labor Contract Law will likewise serve as the catalyst for a wave of labor militancy in China—especially if employers (as is likely) attempt to evade the law and if the arbitration system becomes too burdened with cases to be able to resolve workers’ grievances quickly, encouraging them to turn instead to direct action.

In sum, it is not far-fetched to conclude that both in absolute numerical terms (measurable open unrest) *and* in terms of its impact on the dynamics and future course of global capitalism, China is becoming the epicenter of world labor unrest and will increasingly be so in the coming decade. Evaluating the likely effects of this labor unrest on workers inside and outside of China as well as on the trajectory of world capitalism requires that we bring in a further set of analytical tools, our task in the next section.

SPATIAL “FIXES,” PRODUCT CYCLES, AND THE TRAJECTORY OF GLOBAL CAPITALISM

If an analysis of the dynamics of historical capitalism leads us to predict that “where capital goes, conflict follows,” then this same analysis leads us to look for a number of predictable capitalist responses to the labor unrest and rising costs in

China. For example, during the past 150 years, capital has responded to labor unrest by geographically relocating production in search of cheaper or more docile labor (“spatial fixes”) and by introducing technological/organizational changes in the process of production (“technological fixes”; Silver 2003: chs. 2–3). While these general theoretical insights provide critical analytical tools for understanding contemporary global dynamics, it is also clear that no mechanical application of general theory will suffice. Rather, in this section we must ground (specify) the theory historically/geographically in order to better grasp the current tendencies of global capitalism.

Spatial Fix

There is widespread anecdotal evidence that factory owners in labor-intensive manufacturing are seeking lower-wage sites of production. According to the *Wall Street Journal*, the change in the cost structure in Guangdong and the Pearl River Delta “is sending ripples around the world” as factory owners invest in “new locations deeper inside China” or turn to “poorer countries with lower wage levels” such as Vietnam and Bangladesh (Fong and Canaves 2008; see also Bradsher 2008). In her intensive fieldwork at seven major automobile assembly plants, Zhang (2008) found that although the central government’s development plan favored the concentration of automobile production in select cities, auto firms were establishing production units in new regions in response to both competition among local governments to attract auto-industry investment and (real or perceived) differences in the cost and docility of labor forces located in different areas of China.

When strong labor movements emerged in other late industrializers (such as Brazil and South Africa in the 1970s and 1980s), they experienced massive capital flight and deindustrialization. For example, there were massive layoffs in the industrial suburbs of São Paulo (the heart of the Brazilian labor movement) as capital fled to new locations both outside and inside Brazil. One indicator of the impact of these “spatial fixes” on the Brazilian labor movement is the drop in membership in the metalworkers’ union in the suburban São Paulo area, from 202,000 in 1987 to 150,000 in 1992 and 130,000 in 1996 (Silver 2003: 57).

Is the Brazilian experience the proper analogy for thinking about likely future dynamics in China? On the one hand, we are already seeing evidence of capital relocation, even though labor unrest in China has not yet reached the scale or intensity seen during the mid-1980s in Brazil. On the other hand, there are good

reasons to think that mass capital flight from China is not in the cards. As has been argued elsewhere (see, for example, Arrighi 2007: ch. 11), investment in China is only partly motivated by cheap labor. Rather, economies of agglomeration provided by planned industrial districts and networks, a healthy and educated workforce (in large part the legacy of Mao-era investments in public health and mass literacy), a well-developed transportation and logistics infrastructure, and the size of the internal market are all strong motivations that would remain even if labor costs were to rise substantially. Indeed, if workers' wages rise in China, the size of the market will also increase, making market-oriented investment in China even more attractive.

Of course, access to the Chinese market is not threatened by relocation *within* China (any more than access to the U.S. market was threatened by the large-scale relocation of manufacturing from northern to southern states after the Second World War). Since key Chinese labor legislation is at the national level (rather than the local level), the main outcome of capital relocation internally may be to reduce regional inequalities within China by raising incomes in the new sites of investment, rather than producing a domestic (within China) race to the bottom. Indeed, one of the automobile companies studied by Lu Zhang with production bases in an expensive area of China (where workers have a reputation for being "demanding") set up a new plant in another province with a reputation for cheaper and more docile workers. Shortly after the new factory opened, these allegedly docile workers carried out a strike to protest line speed, arbitrary management decisions, and the fact that their wages were lower than those of workers at the original site of production.⁴

Moreover, the thesis that "where capital goes, conflict follows" is receiving fresh confirmation in the latest favored site for new investment in search of cheap labor—Vietnam. In the Taiwanese press, we find reports of a "strike explosion" hitting foreign-owned businesses in Vietnam in 2007 and 2008. "Anxiety" is reportedly growing among "Taiwanese businessmen" (the largest foreign investors in China) who see the strike situation as getting "worse and worse," with the outcome of strikes strongly favoring the workers (*Lianhe News* 2008).

Technological Fixes

For more than a century, one of the main responses to strong labor movements has been to seek out new forms of labor-saving technology to reduce the total wage bill and reliance on the cooperation of the workforce. Late industrializers

tend to introduce the most advanced (labor-saving) technology available even when they are operating in a labor-surplus economy. This mismatch between technology and labor supply weakens workers' marketplace bargaining power.

Modern manufacturing's weak labor absorption capacity is clear in China today. Despite the massive increase in industrial output during the past two decades, employment in manufacturing has essentially stagnated since the mid-1990s. Figure 9.1 illustrates this point with specific reference to the automobile industry in China. While output rose from about one million vehicles in 1992 to more than seven million vehicles in 2006, employment in the automobile industry has remained flat. This outcome was due to the "leaning out" of the state-owned enterprises together with the importation of advanced machinery as well as Taylorist and lean production methods of organizing production (Zhang 2008).

One important question is whether the resulting weak marketplace bargaining power of labor is counterbalanced to any significant extent by strong workplace (structural/disruptive) bargaining power, that is, bargaining power that accrues to workers enmeshed in tightly integrated production processes, where a localized stoppage in one node can cause disruptions on a much wider scale than the stoppage itself. While an in-depth analysis of the workplace bargaining power of Chinese workers is beyond the scope of this chapter, evidence from fieldwork suggests that at least some mass-production workers have significant workplace bargaining power. Take the example of one of the automobile assemblers studied by Zhang, which attempted to introduce "just-in-time" production methods despite a very poor relationship between workers and management. As noted elsewhere (Silver 2003: 67–69), just-in-time production increases the potential workplace bargaining power of labor. It eliminates the buffers built into the traditional Fordist system that had allowed production to proceed in the face of strikes and other events that could cause short-term interruptions in the flow of parts to the assembly line. Relations with management at this particular automobile company were abysmal, reflected among other things in widespread acts of petty sabotage by workers. In the end, in order to keep production flowing smoothly, management felt obliged to eliminate their experiment with just-in-time production methods and return to a system with greater built-in supply buffers.⁵

To be sure, as Evans and Staveteig (2008) point out, only a small percentage of Chinese workers are in manufacturing, and we might add that an even smaller percentage are in capital-intensive industries such as automobile production. To the extent that workplace bargaining power is stronger in capital-intensive manufacturing than in other sectors of the economy and to the extent that the impact of struggles in manufacturing are limited—that is, they don't contribute to "rais-

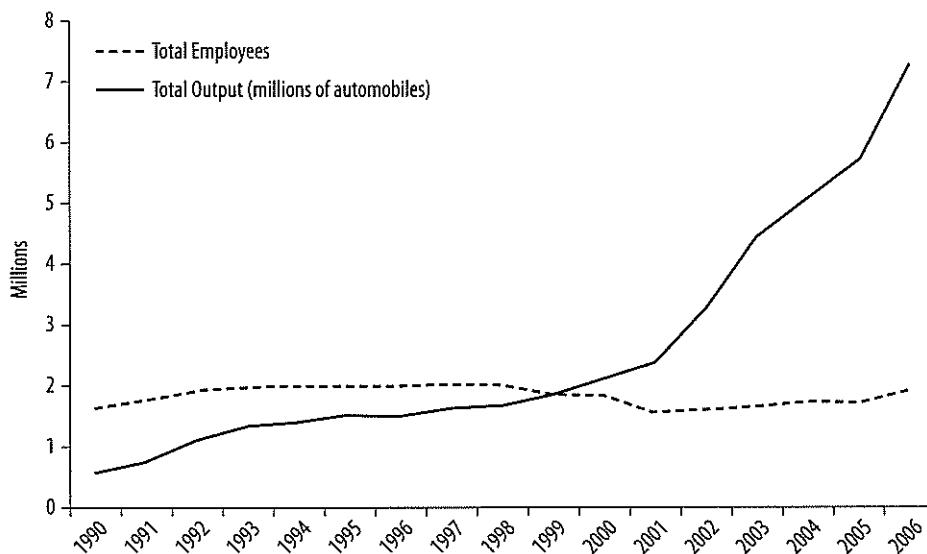


Figure 9.1. Annual Output and Number of Employees in China's Automobile Industry, 1990–2006

ing all workers' boats"—then the fact that a minority of workers have strong workplace bargaining power is not particularly encouraging in relation to the overall project of improving workers' welfare. However, these presumptions (posed by Evans and Staveteig) are debatable. It is not clear that there is a straightforward downward trend in workplace bargaining power as we move from manufacturing to services, and it is not clear that extremely disruptive struggles by a minority of a country's workers have limited social effects (see Silver 2003).

The Product Cycle and Product "Fixes"

What is clear, however, is that China entered the global competition in the mass production of automobiles and other manufacturing activities at a late stage in the "product cycle," that is, in the "standardization" phase when these activities were already subject to intense international competition, that being the period when profit margins are extremely thin. In Vernon's (1966) product-cycle model, newly innovated products tend to get produced in high-income countries, but as products pass through their "life cycle," production facilities are dispersed to increasingly lower-cost (particularly lower-wage) sites of production. In the early "innovative" stage of the product's life cycle, competitive pressures are low, making costs relatively unimportant. But as products reach the stage of "maturity" and

finally “standardization,” the number of actual and potential competitors grows, as does the pressure to cut costs.

Up until now, we have argued that the geographical relocation of production does not lead to a straightforward race to the bottom in wages and working conditions because new working classes are formed and powerful labor movements tend to emerge in each new favored site of production. However, the product life-cycle theory underscores how each phase of the product cycle takes place in an increasingly competitive environment as production disperses geographically and as the process of production becomes more routinized. In other words, each round of geographical relocation unfolds in a fundamentally different competitive environment. Monopolistic windfall profits—or what Joseph Schumpeter called “spectacular prizes”—accrue to the innovator (1954: 73). But as we move through the stages of the product cycle, there is a decline in an activity’s profitability. Moreover, in favoring low-wage sites for new rounds of expansion, production increasingly takes place in sites where the level of national wealth is relatively low. These tendencies, in turn, have important implications for the *outcome* for major waves of labor unrest—especially for the kind of labor-capital accord that labor movements can achieve with a degree of durability for the gains secured (Silver 2003: 77–97).

To clarify this point, let’s return for a moment to the analogy (or in this case, the limits of the analogy) with the U.S. post–New Deal era. The strike wave of the Franklin D. Roosevelt years in the United States culminated in a labor-capital-state “social contract” in which employers (especially in mass-production manufacturing) agreed to recognize unions and to steadily increase wages and benefits in step with labor productivity increases. In exchange, workers (and their unions) were to channel grievances through established formal procedures and accept management’s right to make decisions about the organization and location of production. The state, in turn, was to promote a macroeconomic environment suitable to this exchange, including keeping unemployment levels low. This social contract remained in effect in the United States for several decades after the Second World War and was openly ruptured only in the 1980s. This relatively durable social contract was in important part underwritten by the “monopoly windfall profits” that accrued to U.S. mass-production employers in the “innovation phase” in the mid–twentieth century.

Clearly, the current competitive environment is less hospitable for most manufacturing activities. Whereas in the United States, autoworkers were able to translate their strong workplace bargaining power into several decades of rising wages and expanding benefits, Chinese autoworkers, with a similar level of work-

place bargaining power, have so far experienced stagnating or declining real wages (Zhang 2008: 30). By placing ongoing dynamics in the context of the product cycle, we can also understand better the tensions and contradictions involved at the automobile firm (mentioned above) that, when faced with resistance by workers with strong workplace bargaining power, decided to abandon just-in-time production, that is, it was unable or unwilling to find a way to gain the cooperation of the labor force in its efforts to implement the most advanced organizational forms of production.

We have conceptualized this dynamic in other late industrializers as the social “contradictions of semiperipheral success.” From a developmental standpoint, this means that successful late industrializers tend to find themselves “running fast to stay in the same place”—that is, in “the same place” in the global hierarchy of wealth (Silver 1990; Arrighi 1990; cf. chapter 5). However, it is not at all clear that this is the best way to understand contemporary Chinese dynamics.

For one thing, it remains an open question whether China will manage to jump up in the global value-added hierarchy, in which case an analogy with the long-term stable U.S. labor-capital-state social contract of the post–World War II decades may be more relevant than it would seem at first sight. This is a question that we cannot address here, except to point to the massive investments being made by the Chinese central government in the expansion of tertiary education as part of a conscious effort to make the “jump” and capture some of the monopoly windfall profits that accrue to activities in the innovation phase of the product cycle. Yet even if China were able to jump up in the global value-added hierarchy, simple imitation of the wasteful U.S. mass-consumption model would be unsustainable and undesirable on ecological and other grounds.

This brings us to the urgent (but as yet unanswerable) question raised by Giovanni Arrighi (2007) in *Adam Smith in Beijing*: whether China’s specific historical legacy—both the revolutionary legacy of the Mao years and the longer-term historical experience of noncapitalist market development—has left open paths for social innovation that depart in fundamental ways from twentieth-century capitalist dynamics.

WORKERS OF THE WORLD AND CHINA

If, as we argued in the first part of this chapter, a major shift in the balance of power between labor and capital is taking place in China, what are the implications for labor and labor movements in other parts of the world? A common storyline in much of the world is that if labor standards were to improve in China, then

the attractiveness of China as a site for foreign direct investment would decline dramatically. Global flows of capital would reverse direction, and the problems of labor movements outside of China would be largely solved.

There are problems with this storyline. The first problem has been discussed above. That is, economies of agglomeration provided by planned industrial districts and networks, a healthy and educated workforce, and the size of the internal market are all strong motivations for investment in China that would remain even if labor costs rise substantially. If anything, rising real wages will make China even more attractive as a site of investment as the relative global weight of the Chinese market increases further.⁶

To be sure, some countries of the Global South *may* find themselves in a better position to attract some of the labor-intensive foreign direct investment that might have previously headed to China—although as suggested above, it is not at all clear that the path to “development” in the twenty-first century is through a single-minded pursuit of manufacturing activities in the last stage of the product cycle. Rather, a more likely path might be through the strategic use of the “wind-fall profits” in commodity prices in support of longer-term investments in development. For one outcome of the rapid economic expansion of China has been an overall secular reversal in the terms of trade between primary and secondary economic activities.

Rising labor costs in China will have a serious impact on workers as consumers outside of China as the foundations of the low-road neoliberal “social compact” pioneered by the United States (and exported elsewhere) begin to crumble. For to the extent that the suppression of real wages in the United States has been socially sustainable, it has been founded on the massive importation of low-cost consumer items from China as well as on a mushrooming current account deficit. This model is in the midst of crumbling—as “stagflation” alarms are sounded—however, it is still unclear in late 2008 whether there will be a “soft landing” or a socially and politically catastrophic collapse.

While the crumbling of this low-road neoliberal social compact is no doubt a good thing for workers around the world, labor academics and activists have not even begun to think through the political dynamics of the emergent new era, much less an overarching vision of the new forms of labor organization. Without such a rethinking, the chances of jumping from the frying pan into the fire are high (cf. Arrighi and Silver 1999: conclusion). At a minimum, such strategies must be prepared to navigate a politically dangerous interregnum between the collapse of the old and the birth of the new—in other words, to be strategically prepared (to the extent that it is possible to be prepared) for the catastrophic col-

lapse scenario. One important place to start is to come to terms with the intimate historical link between the rise of the “welfare state” and the “warfare state” in the West, that is, between the rise of labor power and state power (Silver 2003: ch. 4). Notwithstanding the tensions between states and labor created by the neoliberal turn, this link has never been truly broken. If we are indeed in the midst of a fundamental redistribution of global wealth and power from North to South and from West to East, then a kind of “cultural revolution” in the Global North/West is needed: a cultural struggle in which a more equal world order comes to be seen as a blessing, rather than a threat to be fought off by any means available.

NOTES

1. To be sure, one must use caution in interpreting these figures. Once we adjust for China’s population of 1.3 billion, the official figures are less striking. However, the sharp upward trend in the number of incidents is still very dramatic (and the official figures for mass protests are almost certainly an underestimate of the actual number of events).

2. Interview with firm manager by Lu Zhang, Beijing, January 2008.

3. These concerns are made clear in the opening two paragraphs of the National Labor Relations Act. For the text of the law, see www.nlrb.gov/about_us/overview/national_labor_relations_act.aspx, accessed November 12, 2008.

4. Lu Zhang’s fieldwork notes, October 2006.

5. Lu Zhang’s fieldwork notes, January 2008.

6. A second problem with this storyline, which we will set aside for now, is that it assumes that the problems of labor movements outside China are to a significant degree attributable to competition (“fair” or “unfair”) from China. As Ruth Milkman (2006) has shown for the United States, the crisis of the U.S. labor movement in manufacturing preceded the rise of competition from China; moreover, sweatshop conditions emerged in service-sector activities not subject to international competitive pressures such as trucking and janitorial services.

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