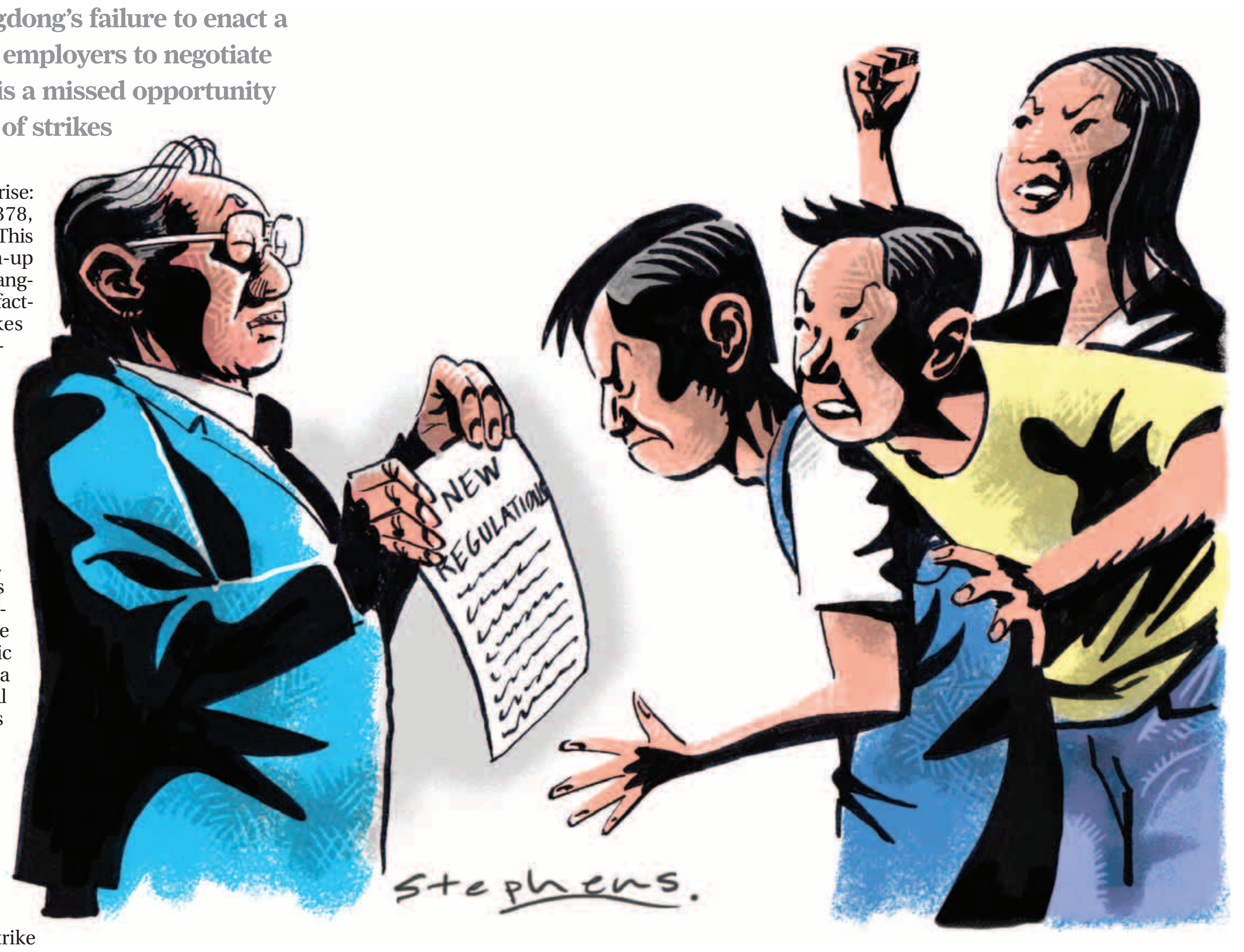
INSIGHT

Strike a balance

Aaron Halegua says Guangdong's failure to enact a strict regulation requiring employers to negotiate with disgruntled workers is a missed opportunity to stem the rising number of strikes



Strikes in China are on the rise: 2014 witnessed over 1,378, double the number in 2013. This surge intensified in the run-up to the Lunar New Year. Guangdong is the hub of both export manufacturing and labour unrest. The strikes there have been increasingly well co-ordinated and growing in size – nearly 40,000 workers at a Nike footwear supplier last year, another 3,000 workers at a Hewlett-Packard subsidiary last month.

China's strikes are unique not only because of their frequency, but also their form. In the West, strikes tend to occur after a period of collective bargaining, usually as a last resort. In China, workers' opening volley is often a strike. This is because employers are rarely motivated to negotiate until there is an immediate economic reason to do so. Further, without a functioning trade union, no practical mechanism exists to notify employers when workers are discontented and contemplating action.

But why does this difference matter? Although we read that many of these worker actions have resulted in higher wages or other benefits for employees, these strikes with "Chinese characteristics" also have very real costs to employers, the government and, most importantly, the strike leaders who are routinely fired and sometimes jailed.

Guangdong authorities recently adopted a regulation to foster collective bargaining and reduce strikes. Unfortunately, this effort is unlikely to succeed, and the pattern of strikes and repression can be expected to continue.

In practice, Chinese law affords striking workers little protection. In the Hewlett-Packard case, the worker who collected 4,400 employee signatures opposing a restructuring decision was fired shortly after the strike began. Fired strikers may turn to the courts to contest their termination, but they virtually never win.

Strike leaders face even worse consequences than loss of their jobs. They are often "blacklisted" and unable to find work elsewhere. Moreover, workers and advocates involved in organising a strike have been interrogated, beaten or detained by police, and sometimes charged with the nebulous crime of "disturbing public order". Some workers have even been convicted and served prison terms.

Workers are not the only ones burdened by China's unique labour relations system. The Nike supplier in Guangdong said the direct cost of the 40,000-worker strike last spring was US$27 million. Constantly calling out the riot police is also not cheap for local governments. Plus, strikes are problematic for officials obsessed with maintaining social stability.

This is why in 2010, Guangdong set out to change all this. The goal was to create a system by which workers could compel an employer to negotiate over workplace issues without first resorting to a strike.

Worker advocates were optimistic about the initial draft of the regulation. It made it easy for workers to request negotiations. Fines were authorised against employers who refused to negotiate, withheld information or negotiated in bad faith.

> **These strikes also have very real costs to employers, the government and the strike leaders**

Most significantly, if the employer's unreasonable actions caused a work stoppage or slowdown, employees could not be fired for participating in such an action. In other words, it legitimised certain strikes. The draft regulation recognised that motivating employers to resolve disputes through negotiation required threatening them with the possibility of a protected strike.

But the Guangdong regulation that became effective on January 1 backed off from these reforms – and is thus unlikely to reduce the incidence of strikes.

The final regulation raised the threshold for workers to demand negotiations and removed any possible penalties against employers. If negotiations do happen, the regulation explicitly prohibits workers from engaging in a work stoppage or slowdown.

Most critically, even when negotiations break down due to the employer bargaining in bad faith, the regulation provides no protection to workers who strike in response. Quite the contrary, in the event of such a "negotiation dispute", the local government is instructed to call on the relevant agencies, including the police, to resolve it.

In short, the final regulation maintains the status quo. There are no new tools to pressure employers to take bargaining seriously. So it is no surprise that, this month, 1,000 workers at a Guangdong watch factory went on strike before there were any negotiations concerning proposed layoffs.

The Guangdong business owners, who lobbied to amend the initial draft, reportedly see the final version as a victory. Their view is misguided. Fewer costly work stoppages would benefit workers and the government, as well as employers. The regulation marks a missed opportunity to try to establish a functional collective bargaining system.

Instead, the Year of the Sheep is likely to see the strikes – along with the firings, injuries, detentions and arrests – continue to rage on in Guangdong.

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Finance flaws

Michelle Chan says Chinese banks are failing to ensure clients comply fully with environmental and social regulations when investing abroad

Since the launch of China's "going out" policy some 15 years ago, the country's outbound investment has increased over 30-fold to almost US$103 billion in 2014. As China's overseas footprint has grown, so have the environmental and social controversies linked to Chinese-backed projects. In the past few years alone, Chinese companies and banks have come under fire for a range of deals, such as copper mines in Ecuador that have fuelled social conflict.

But unlike US or European governments, which have largely let their multinational corporations roam the globe with little environmental oversight, China has issued government policies aimed at promoting stronger environmental stewardship for Chinese investments overseas.

One of these policies is the Green Credit Guidelines, issued by China's banking regulators three years ago this month. The guidelines not only instruct banks to link lending decisions to clients' environmental performance, but also require banks to ensure that borrowers abide by international best practices abroad.

The international aspect of the guidelines is visionary both in terms of promoting sustainable finance and global corporate responsibility. But the proof of the pudding is in its eating, and implementation of the guidelines, as we describe in our recent report, "Going Out, But Going Green?", is falling short. In six of the seven overseas case studies we examined, we found compliance failures.

The reasons will come as no surprise for long-time observers of sustainable banking. Fundamentally, Chinese banks are dogged by the same challenges as their international peers: a lack of expertise, ability – and sometimes political will – to assess the environmental and social performance of their clients. Perhaps the most notable difference between Chinese and international banks is their dearth of communication with stakeholders and civil society groups. This cuts Chinese banks off from valuable information and thus inhibits their ability to implement the guidelines. In this regard, Chinese banks are probably 10 to 15 years behind leading international financiers.

Another reason for the guidelines' inadequacy is that they are basically mandatory but not enforced, meaning that banks are supposed to comply with them but do not suffer real sanctions if they don't. In particular, the China Banking Regulatory Commission does not seem serious about the international element; for example, there does not appear to be any particular department or staff at the commission specifically charged with overseeing the guidelines overseas.

All eyes are on China now as its global footprint grows. And with China taking leading roles in new financial institutions such as the BRICS bank and the Asian Infrastructure Investment Bank, the world is looking to China for leadership in sustainable finance.

By way of public policy, China has been a pioneer in issuing some of the world's most innovative green finance policies. But in practice, it has a long way to go to live up to the promise and potential of these policies.

Michelle Chan is director of the economic policy programme at Friends of the Earth – United States

Free trade zones are China's stepping stones to financial liberalisation

Carmen Ling says expanding the scheme and other policy shifts pave way to yuan convertibility

China is stepping on the reform accelerator, opening its capital account much faster than expected. Just one year after opening its first free trade zone in Shanghai, China is now liberalising offshore borrowing for firms registered there. The Shanghai free trade zone was originally billed as a three-year trial, but China is forging ahead, expanding Shanghai and launching three new zones on March 1.

While not the sole conduit for reform, the trade zone scheme is crucial to the prospects of a fully convertible renminbi, and the speed at which China is expanding the scheme is surprising many observers.

Even more policy relaxations could be on the horizon in the run-up to the International Monetary Fund's review of its special drawing rights later this year. The review, taking place every five years, will decide whether the renminbi gets included in the rights alongside the dollar, euro, pound and yen. If it does, this will be a major boost for renminbi internationalisation.

The announcement on February 12 that offshore borrowing for firms in the Shanghai free trade zone will be relaxed further – and that the new regulation will include banks – is a significant breakthrough.

The latest policy changes follow Beijing's announcement in December that it would expand the Shanghai free trade zone, by including sites such as the Lujiazui financial district, and establish three new hubs in Tianjin (天津), Fujian (福建省) and Guangdong.

The Shanghai trade zone has been an important test bed for freer trade and a more liberal business and financial environment. The fact that China is now expanding the zone and replicating it in other cities confirms that the government considers it a success.

First, the zone is bringing real benefits to China's economy and companies. According to official data, export-import trade passed through the zone between January and August last year rose 11 per cent compared to the same period of 2013, before the zone was established. Logistics and inventory costs were lowered by an average of 10 per cent and average time required to clear customs was reduced by three to four days.

> **The speed at which China is expanding the scheme is surprising many observers**

Second, the Shanghai trade zone is contributing to China's financial reform. Initiatives such as interest-rate liberalisation and the cross-border renminbi sweeping programme – a scheme that allows firms to repatriate their trapped cash onshore to offshore through a linked cash pool – are crucial to promoting currency internationalisation.

Third, the risks associated with the zone are proving manageable. A negative list was put in place to restrict foreign funds from investing in specific industries within the zone, such as sensitive or overheated sectors. This list has since been shortened, demonstrating Beijing's growing level of confidence in the zone.

Also, commercial banks are enforcing know-your-customer procedures to ensure that the funds moving in and out of China are supporting genuine trade.

Bearing in mind this track record in Shanghai, launching new free trade zones seems a sensible way given China's sheer size.

The Guangdong free trade zone, including Qianhai, will mainly serve companies from the high-end financial services industry located in Hong Kong, the Pearl River Delta and Macau.

The Tianjin zone targets those located in the northern area, where some 80 Fortune 500 companies have established a presence.

Meanwhile, the Fujian zone will leverage its strengths in trade with Taiwan and in international logistics business.

While details have yet to be ironed out, the three zones are expected to implement similar policies to Shanghai.

The Shanghai zone is likely to remain a testing ground for new initiatives, such as renminbi-denominated commodity contracts.

Companies that have embraced China's liberalisation via the Shanghai zone are benefiting from first-mover advantage, but the free trade zones are not without challenges. Many multinationals feel uncomfortable with the piecemeal and unpredictable way in which China announces its policy changes. Some are reluctant to set up an entity in a free trade zone, only to find another new, more user-friendly policy around the corner.

In addition, renminbi appreciation is no longer seen as a one-way bet, posing an even bigger challenge for firms as they will have to start hedging their renminbi exposure.

Expansion of China's free trade zones is likely to take time. Their scale will be small compared to the broader economy and it is unlikely that the zones will have a huge impact on activities beyond their boundaries.

What is clear, though, is that China is committed to driving financial reform in a bid to reach the endgame of full convertibility in the renminbi, and more free trade zones will act as stepping stones along the way.

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Monetary policy does work, as Japan and the US prove

Koichi Hamada calls on sceptics in Europe to back quantitative easing

Last month – just a few days before the European Central Bank announced its intention to initiate quantitative easing – I attended a seminar in Geneva with international journalists, policymakers and investors. The discussions there, much like those in Japan before Prime Minister Shinzo Abe launched his groundbreaking economic reform strategy in 2012, reflected an inadequate understanding of unconventional monetary policy's transformative potential.

Indeed, at the seminar, European economists and journalists – especially the Germans – adopted a dismissive tone. "Monetary policy's power is limited, particularly when the interest rate is so low," some said.

This and other statements were somewhat surprising, given the progress that Japan has been making on the back of its ongoing strategy based on quantitative easing. Clearly, many in Europe lack an understanding of the history and significance of so-called Abenomics.

In 2001, the Bank of Japan was struggling to find ways to help the economy escape recession. Having already reduced the target short-term interest rate to very close to zero, it turned to open market operations – specifically, purchasing long-term government bonds and increasing bank reserves held at the Bank of Japan – to increase the money supply and reduce long-term interest rates.

But the BOJ's attempt at quantitative easing proved to be too little too late, and no recovery materialised. Ben Bernanke, then the chairman of Princeton University's economics department, took note of this failing, declaring that the BOJ should pursue a more aggressive monetary policy.

When the US investment bank Lehman Brothers collapsed in 2008, triggering a global financial crisis, Bernanke – who had become US Federal Reserve chair – took his own advice, instituting a bold quantitative easing programme to revive America's moribund economy.

Japan, by contrast, hesitated to expand its money supply substantially, leaving the yen's exchange rate against the US dollar to appreciate and causing gross domestic product growth to decline further. In 2009, Japan's economy was performing at 8 per cent below potential, even though its financial system was sound. In short, the Japanese economy suffered far more than the US economy.

A small group of economists, including me, recognised this discrepancy, and argued strenuously that monetary easing was critical to fight deflation and extreme currency appreciation. But our arguments were consistently dismissed.

Abe changed everything. With monetary policy as the basis of his political agenda, he became prime minister (for the second time) in December 2012. Soon after, quantitative easing was off and running. Almost immediately, the yen depreciated, exports increased and the stock market soared. After nearly two decades of recession, the Japanese economy was growing again – and it had Abenomics to thank for it.

Of course, everything did not go entirely smoothly; a 3-percentage-point consumption-tax hike interrupted Japan's progress. And Japan still has a long way to go to achieve robust long-term economic growth. Nonetheless, the effectiveness of quantitative easing was clear.

Now it is Europe's turn to benefit from the power of monetary policy. But, for the ECB's plan to work, its quantitative easing must be robust – and that will require broad support.

Given the policy's success in the US and Japan, attracting such support should, one might assume, be relatively easy. Yet many policymakers remain convinced that monetary policy is not all that powerful.

The belief that monetary policy does not matter is not just "the most dangerous idea in Federal Reserve economic history", as the economists Christina and David Romer have noted; it is exceedingly hazardous to any economy. Europe faces enough serious risks already; it should not needlessly add to them.

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