

# The Deterioration of Labour Conditions in China's Construction Sector

*The ESRC-DFID Research Project  
"Labour Conditions and the Working Poor in China and India"*

## Introduction

This Development Viewpoint is the first of two drawing on research on labour conditions in the construction sector in Shanghai conducted by the ESRC-DFID Research Project on "Labour Conditions and the Working Poor in China and India". This publication concentrates on the history of labour conditions in this sector.

This ESRC-DFID project has examined labour conditions in both the garment sector and the construction sector in Shanghai, the People's Republic of China, and Delhi, India.

The construction sector in the People's Republic of China has experienced astounding growth in the last few decades. By 2009 it had already become the second largest construction sector in the world, worth an estimated US\$ 1.085 trillion. By 2018 it is projected to displace the US sector as the largest and by 2020 to account for almost one-fifth of total global construction output.

Yet labour conditions in China's construction sector have deteriorated significantly over time. The sector relies on the extensive recruitment of rural migrant workers employed to work intensively for long hours on short-term contracts, with few benefits or social protection and without union representation.

Labour conditions in China's construction sector were much more stable and favourable to workers during the socialist period. But since the early 1980s this sector has undergone dramatic changes, increasingly re-orienting itself to the needs of a more market-oriented economy. Property and housing have become more privatised and construction firms are operating more like private profit-oriented corporations.

## Changes in Construction Firms

Freed from state planning, State-Owned Enterprises (SOEs) in this sector are now intent mainly on constructing homes and commercial buildings that can be sold in rapidly evolving domestic property markets.

The total number of construction firms in China increased dramatically between 2000 and 2010, rising from about 47,500 to almost 72,000. Meanwhile, some of these firms have grown into gigantic general contractors. And a significant number have undertaken construction activities on a global scale. For instance, in 2012 four of the five largest construction contractors in the world were Chinese firms (See Table).

State-Owned Enterprises still dominate China's construction sector, monopolising most of the large-scale projects. But they have become publicly traded companies. Though the majority of their shares are still owned by the state, an increasing proportion is now traded

## World's Largest Construction Firms (Total Revenue, US\$ Billion)

Rank	Company	Country	Revenue
1	China State Construction and Engineering	China	72.6
2	China Railway Construction	China	68.8
3	China Railway Engineering	China	68.4
4	Vinci	France	52.4
5	China Communication Construction	China	45.5

Source: *The Economist*, 27 October 2012

on the Hong Kong and Shanghai stock markets.

## A Construction Boom

Since the 1990s, there has been a remarkable construction boom in China. But this trend has been driven mostly by real-estate development in rapidly expanding cities and towns. In 2010 residential and commercial buildings accounted for almost two-thirds of the total value added of the construction sector. At about the same time, China's residential floor space had become the largest in the world.

The Chinese state has been responsible for stimulating this boom, through such means as separating land-use rights from ownership and subsidising property development. Local governments have also benefited from the handsome incomes that they have received from construction activity.

In contrast to the slowdown in the manufacturing sector during the global recession, there was continued growth in the Chinese construction sector, fuelled in large part by the government's mega-scale stimulation package of 2008, which included 4 trillion Renminbi of government spending and 9 trillion Renminbi of low-interest loans from state-owned banks.

However, the evolving profit-driven dynamic of the Chinese construction industry has been built on the basis of extracting the maximum work effort from a large peasant migrant workforce with virtually no rights. In so doing, the industry has developed a complex and deliberately opaque hierarchical structure, constructed to absolve the higher echelons of any direct responsibility for labour conditions in the sector.

At the top of the pyramid are usually State-Owned Enterprises, which are the property developers or the dominant construction companies. Lower down the pyramid are contractors, usually privately or collectively owned companies, which supervise various parts of a construction project. But even further down are a multitude of private subcontractors, which focus on particular aspects of the construction project.

The recruitment of the large number of manual workers is usually left to the bottom rung of the hierarchy, i.e., the labour subcontractors (most of whom are informal). Most construction workers consider these subcontractors (whether formal or informal) to be their real employer. But the great majority of these workers have no formal labour contract with these subcontractors, and thus they have no real basis to claim any labour rights--on pay, working conditions or social insurance.

### How Profits Are Extracted

Because the vast majority of construction workers are temporary migrant workers, often without the right of residence in urban areas, they have been subjected to various forms of exploitation. By 2011 there were almost 45 million peasant workers employed in the sector, the vast majority labouring outside their own township.

One of their major disadvantages in urban labour markets is the *hukou* (or household registration) system, which does not allow them to take up permanent residence in urban areas and enjoy the attendant rights and benefits. Though such a system has been reformed, its major features remain intact. Thus, it continues to drive a wedge between urban workers and rural migrant workers in the construction industry, producing a sharply divided workforce.

On one side is the small proportion of relatively skilled or experienced employees who might enjoy decent wages and employment conditions and be members of a trade union. Typically urban *hukou* holders, they are usually employed on a regular contract by general contracting firms or specialist companies that operate higher up the industry hierarchy. But such workers account for only roughly about one fifth of all construction workers.

On the other side of the divide is the much larger group of low-skilled temporary migrant workers from rural areas, who invariably receive much lower pay and do the bulk of the hard manual labour. They account for the other roughly four-fifths of construction workers.

Whether registered or unregistered, they usually enter the industry through informal and indirect regimes of recruitment. Our research confirms that this informal labour recruitment regime contributes greatly to the exploitative labour use regime in the sector.

### Wages and Working Conditions

Generally, migrant workers are subjected to relatively low wages, long and irregular working hours and a very intense pace of work. The great majority of them do not receive written labour 'contracts' and often they have only verbal agreements with labour subcontractors. Thus, when their wages are delayed or are never, in fact, paid,

they have little direct formal recourse. Such cases of injustice have often been the spark setting off mass protests by workers.

The general contractors in the construction industry (often SOEs and sometimes collectively owned firms) are ultimately responsible for the employment of workers and their pay and working conditions. But having devolved recruitment of workers down to the labour subcontractors, they have sought to absolve themselves of any direct responsibility.

The result has been relatively intense exploitation of the great majority of construction workers. Generally, they labour for more than 6 days a week and for 10 hours or more per day, with only limited overtime pay. And their working hours can be very irregular since they are subject to the changing needs and timetable of each construction project. Thus, it can often be difficult to even determine how many of their working hours are actually paid.

Since workers lack any formal labour contracts, they can be subject to unexplained variations in their pay scale, especially for overtime pay, have their wages deducted arbitrarily for the provision of food and shelter and be excluded from any meaningful forms of social protection, such as even basic health and safety provisions.

### The Need for Representation

The great majority of workers in China's construction industry, especially migrant workers, have no trade union representation. Generally, trade unions appear to be active only among the more 'job-secure' workers recruited by the large general contractors or construction companies.

Though the Chinese government has made attempts to reform labour conditions in the construction sector, these reforms have made little headway so far. One roadblock has been that local or regional governments have little interest in aggressively pursuing such reforms. And the inspection departments of government Labour Bureaus have been too weak to effectively address, or even adequately monitor, the problems encountered by construction workers across the country.

So far, the government's intended reforms have not addressed many of the structural factors in the construction industry that have led to the widespread problems in its labour conditions. These factors spring from the hierarchical structure of the industry that absolves the large dominant construction companies and general contractors of any direct responsibility for the pay and working conditions of construction workers, especially the large number of rural migrant workers who have few rights and virtually no representation.

*This Development Viewpoint draws primarily on the Working Paper 'Labour Regimes in the Construction Sector in China' written by Dae-oup Chang, Development Studies, SOAS, and on the results of worker surveys in Shanghai led by researchers at Hong Kong Polytechnic University and Peking University, namely, Professors PUN Ngai and LIU Aiyi, and Dr. LU Huilin.*