THE PRIVATISATION OF WATER SUPPLY IN CHINA

By Au Loong Yu and Liu Danqing

Access to clean water is basic human right. Yet from a basic public good, it has been increasingly appropriated by TNCs as a commodity and traded as such. In China, the privatisation of water supply has been proceeding for the last 15 years and one of the consequences is the rise of gigantic Chinese water companies. This is all against the background of 'the rise of China'.

China is fresh water resource poor, with the availability of fresh water per capita only one fourth of the world's average. The pollution of rivers and the ground water table, as a result of the onslaught of immense industrialisation and urbanisation, has further exacerbated the problem. Today two-thirds of Chinese cities suffer from an inadequate supply of fresh water and 110 of them are critically inadequate. Meanwhile, the use of water per capita in China has fallen by 1.7% in the past seven years.

Water supply infrastructure suffers from both a lack of investment and mis-management. The problem is more acute in poorer areas of China – some areas have pipelines dating back to the 1940's. It means that the poor have to drink poor quality water. Because of the chronic lack of investment in rural areas, 360 million peasants do not have piped water. Among them are households who suffer from a severe shortage of fresh water because they lack the money to dig deep wells. In many places the water table has fallen and deeper wells are needed in order to secure water from the wells.

FROM WATER AS A PUBLIC GOOD TO WATER AS A COMMODITY

According to the Chinese government, the solution to the shortage of a fresh water supply is to commercialise and privatise water supply. It is often claimed that one of the underlying factors in the shortage of fresh water is that people have no concept of how to conserve water. Therefore, the imposition of a water fee or rate is seen as the core reform in the supply of water - not only to force people to save water but also to generate funding for additional investment. After 15 years of neo-liberal policy on water supply, today it is clear that the only success is the massive increase in market penetration and the high profits earned by water companies, at the expense of the poor.

Prior to 1979 and under the old command economy, public utilities, including the supply of water, were all run by State Owned Enterprises (SOEs). Services were supplied as a public good. Hence water rates were very low and water departments had to be subsidised by the central authority. Water meters were uncommon and the water rate was fixed - in Beijing, it was as low as 0.12 RMB per ton. However, due to low investment in water supply infrastructure (a necessary consequence of prioritizing accumulation of water over consumption) water quality was commonly substandard and leakages were a serious problem. Mismanagement, bureaucratic red tape and the phenomenon of a 'producer's tyranny' under a command economy further harmed consumers' needs.

The third plenum of the Central Committee of the CCP in 1979 marked the beginning of market reforms in all sectors of the economy. In 1980, fixed water rates were lifted and water meters were introduced on a widespread basis. In 1984, a progressive water rate was implemented where water rates could double if water usage exceeded a certain level. Water rates were raised but still remained affordable for the majority of people. In addition, reform encouraged people to conserve water without abandoning the principle of water being a public good.

Up to this point, reform proceeded on an evenhanded basis. It was not until 1991, against the background of a great leap forward to total integration with global capitalism, that the Central government decided to drop the old principle of treating water as a public good and began a new strategy of supplying water on a commercial basis. It put in place a new policy on water rates and insisted that state run water companies operate at a profit. To convince the public, the party propaganda blamed the failure in water supply both on treating water as a public good and, in particular, household's failure in saving water. It overlooked a simple fact that, because of chronic under investment, pipe leakage was so serious that the volume of water wasted through leakage was bigger than that wasted by households. After years of increases of investment in the water supply infrastructure, it was reported in 2002 that, in a survey of 408 cities, the average leakage rate was 21.5%, amounting to 10 billion cubic meters of water and three years of national water saved.

MEANWHILE A WHOLE SERIES OF WATER REFORMS HAVE BEEN IMPLEMENTED SINCE 1991:

1. The responsibility of providing urban water supply and sewage processing shifted from central government to municipal governments. The latter often helped to establish huge water companies or public utility companies through regional merges, who then provided water on a commercial basis (although technically water rates are still monitored by local governments). Today, even when these companies remain state owned or the state retains a majority shareholding, they act in the same manner as any private commercial company.
2. The Central government began to allow private capital, both domestic and foreign, to invest in the Chinese water market. Together with domestic private water companies, large water TNCs like Suez, Veolia and Thames Water began investing in China. They either invested large amounts of private capital, amounting to over 400 billion RMB over the past decade or invested in new water processing plants through BOT. As a result they have reaped handsome profits from a market which has an annual revenue of 18 billion RMB. This is privatisation in all but name.

WATER RATE HIKES AND HOW THE POOR SUFFER

The privatisation of the water supply market has resulted in severe water rate hikes. A recent survey has shown that average water rates in 35 cities increased from 0.14 RMB per ton in 1988 to 1.26 RMB in 2003, an 8 fold increase in 15 years. In Beijing the hike has been more dramatic: between 1989 and 2003 water rates were raised 9 times, from 0.12 RMB to 2.9 RMB, a 23 fold increase. According to state statistics, the average water rate paid by consumers is 2.29 RMB per grade in September 2005[1].

According to a study in 1985 by Dong Fuxiang, where water bills account for 2.5% of monthly household income, water is deemed to be unaffordable and hence the necessity to conserve water. In 2000, scholars surveyed five provinces and found that amongst the poorest one-fifth of households, water bills far exceeded 2.5% of monthly income (see table below).

Households water bill and electricity bill as percentage of monthly income[2]

households	Water bill as percentage to monthly income (%)	Electricity bill as percentage to monthly income (%)
1/5 of low income households	4 · 19	11 · 62
1/5 of lower - middle income households	1 · 87	5 · 05
1/5 of middle income households	1 · 26	3 · 55
1/5 of middle – higher income households	1 · 20	2 · 69
1/5 of higher income households	1 · 40	2 · 37

The table above tells us that among low income households water and electricity bills now account for 15.8% of their average monthly income, a severe burden on households. A book entitled “The consciousness of Saving Water” recounts strategies adopted by low income households in order to save money on water bills: from barely opening taps so that the water meter might not record any water flow to the of use water in public toilet, where at the end of the day huge crowds flock to the public toilets to wash clothes, vegetables and all kinds of things.

A GUARANTEED HIGH RETURN FOR WATER TNCS

A water rate hike is good news for business - hence foreign capital is flocking into China to grab a share of the private water market. Suez’s investment in Tanzhou Water Company in Guangdong, marked the beginning of water TNCs investing in water supply in China. Suez formed a joint venture with New World Development, the Sino-French holding company based in Hong Kong, to build 15 water processing plants across China.[3]

The Chinese government only allows foreign investment in developing water processing plants and sewage processing plants, leaving pipe lines in the governments own hands. This is

[1] “China Water shares are very profitable”, Li tingsheng, Wanbao Weekly, issue 639, 9 Jan 2006.
[2] “The issue of China water business”, by Li qiang, Shenyuan, Tao chuanjin, Zhou xiaozheng, China People’s University Press, 2005, Beijing, p. 59.
[3] “Behind the 3.3 billion RMB water business”, Wang yuan, Nangfang Weekend, 9 Jan 2004, http://www.people.com.cn/GB/huanbao/1072/2288779.html

why Suez is chiefly involved in the construction and operation of water plants only. In the past decade, Suez has built more than 100 water plants and directly runs 13 of them. Veolia started later, but in 1997 it was able to buy a 55 percent shareholding in a water plant operated by the. Water Department of Tian Jin. This is the first time a foreign firm has run a pre-existing water plant.

These foreign companies earn enormous profits from the Chinese water market primarily because of a system of guaranteed returns on profits which range anywhere from 12 to 18 percent of the gross income of a given operation. In the past, it was reported that operating water plants was one of the most profitable businesses in China. However, in 1997, the Chinese government announced the termination of the regime of guaranteed profits for foreign capital in all business sectors, including water. Nevertheless, according to informed sources, many local governments still manage to circumvent this new policy and offer foreign companies guaranteed returns on investment, even if it they are lower than in previous decades.

In 1996, when the Shen Yang Municipal government signed a contract for the joint construction of its 9th water plant with the China Water Company (Thames Water is the major shareholder), the former granted the latter very high returns on investment: from the second year of operation to the fourth year, the guaranteed profit return to the China Water Co. was 18.5 percent of gross income; from the fifth year to the fourteenth year; 21 percent and from the fifteenth year to the twentieth year; 11 percent.

Such guaranteed returns nearly bankrupted the Shen Yang Water Company, which is owned by the municipal government. The company supplied water to households at a rate of 1.4 RMB per ton but it bought water from the China Water Co. Ltd at a rate of 2.5 RMB per ton. Since the government no longer subsidized water supply, the company suffered a 200 million RMB loss. The general manager of the Shen Yang Water Company complained that

> *"Under the arrangement, foreign capital investment is entirely risk- free. Therefore the China Water Co. was able to recoup what it had invested in the first five years of operation and then started earning money in the following fifteen years."*[4]

But how is it possible that the Municipal government signed such a contract, which was entirely favorable to a foreign firm and at great cost to the Municipal government? In early March of 2002, the Nanfang Daily website had this to say:

> *"Behind the high return rate is the shadow of corruption. ……The former general manager of the Shen Yang Water Company, Chi Ruoai, was first promoted to Vice Secretary of the Municipal government then subsequently jailed for his role in a major corruption scandal in the region. In the course of Chi Ruoai's promotion and his ensuing downfall, the Shen Yang Water Company ran into severe financial trouble. There were so many suspicious factors surrounding the case that someone called it 'inside story of a water plot'".*

The Shen Yang Water Company had to sell-off most of its assets to cover the losses incurred on the China Water Co. deal before it decided to force a showdown with the company. In 2000, the two parties reached a compromise where the Shen Yang Water Company bought back 50 percent of its shareholding in the 9th Water Plant and the guaranteed profit return for the China Water Co dropped to 14 percent. The former saved 200 million RMB. In the end, a 14 percent return for China Water is not that bad.

If the water TNCs suffered a setback in relation to the guaranteed profit regime, then they

[4] "Foreign water company in China", Finacial Journal, 9 July 2001.

were more than compensated by the further opening of the water market in China. When China acceded to the WTO in 2001, she opened up her water market without any transitional period. In 2002, the Chinese government announced the opening up of construction of water pipe lines and direct water retailing to foreign capital, as a consequence of which foreign capital was now direct access to cash flow derived from household incomes.[5] In the same year, the China Water Co. signed a joint venture with the Shen Yang Water Co. which contract covers anything from pipeline construction to water retailing to sewage processing.

THE RISE OF DOMESTIC WATER GIANTS AT THE EXPENSE OF EMPLOYEES AND CONSUMERS

Even though foreign capital is pouring into China's water market in ever larger amounts, because of China's size, foreign capital still only accounts for 1 percent of the entire water market. The major players are still state owned or stated controlled enterprises. The majority of the larger state controlled enterprises are listed on the stock market or lining up to be listed. The largest enterprises have already emerged as major players in the water business e.g. the Beijing Capital Co.; the Shenzhen Water (Group) Co. or the Tsinghua Tongfang Co. Their influence extends well beyond their cities of origin and they are involved in the running of water plants or water supply services across entire regions. In some cities and regions, they are engaged in oligarchic practices.

In addition to this, they are also involved in vertical merges, bringing the operation of hydro-electricity; river management; pipeline construction; water supply; sewage processing and water related machinery manufacturing under their control. The Shenzhen Water (Group) Co. is the first such company to adopt this vertical alignment. The company is a joint venture with the government and its accumulated assets top 6 billion RMB. The government is the majority shareholder in the company. Moreover, the company runs water companies far beyond the Shenzhen region. No wonder foreign water TNCs feel that a large competitor has emerged from nothing before their eyes.

These domestic water giants still look small when compared to the likes of Suez or Veolia. Nevertheless, their potential cannot be underestimated. The domestic water companies enjoy much stronger governmental support, both direct and indirect, than foreign water TNCs. After many years of granting excessive concessions to foreign capital, both domestic business and the ruling elites are determined to scramble for their 'fair share' of the market.

However, the rise of domestic water giants often comes at the expense of state employees. In order to out-compete foreign firms, domestic water companies have undergone tremendous downsizing. Reports suggest that Chinese water companies may have to cut by half the 280,000 workforce if they want to be as cost effective as international water giants. The international benchmark indicates that only 8 workers are needed for every 10,000 tons of water produced. In 1995, when New World Development, the Sino-French Holding Co., took over the Shen Yang 8th Water Plant, it sacked 200 of the original 300 strong workforce. For those who are lucky to remain, they experience a dramatic cut in their wages. A popular saying among water service

[5] "Behind the 3.3 billion RMB water business", Wang yuan, Nangfang Weekend, 9 Jan 2004, http://www.people.com.cn/GB/huanbao/1072/2288779.html

employees is:

> *"We work hard for a year, but what we earn is the equivalent of one dinner for the rich. We have been working hard for decades, but all we get is unemployment in return."*[6]

Despite promises from the government, consumers' interests and needs have not been protected from bureaucratic management and monopolistic actions during the course of water reform. A recent newspaper report informed its readers that:

> *"There are many questions, arguments and tensions going on between the water companies and households, which in the final analysis originates from the monopolisation of the water supply. The creation of monopolies has resulted in water rates hikes, overcharging, forced payment and the cutting of supply at will. These actions impact negatively on the interests of consumers."*[7]

Because of the one party regime and the suppression of freedom of association and speech, people's anger over water issues cannot emerge into positive and populist actions. This is the main reason for the absence of a grassroot campaign despite the continuous erosion of the right of access to clean and cheap water.

Au Loong Yu is a labour activist in Hong Kong, a member of the editorial board of Globalisation Monitor, which focuses on promoting awareness of globalisation issues and solidarity work with Chinese workers, and a leading member of the Hong Kong People's Alliance on WTO.

Liu Danqing, graduate student from Fujen Catholic University, Taiwan.

The article was first published in September 2006 as part of the Chinese edition of "Reclaiming Public Water".

----

[6] " A discussion on the mentality of employees under marketisation of water and the appropriate policy to deal with it", China Water Net, 12 Jan 2005, www.cnwaternes.com

[7] "What is so troubling about water supply in Zhengzhou?", Dahe Daily, 16 Dec 2005. http://www.hnby.com.cn