

The Asian Infrastructure Investment Bank

Labour and Environmental Concerns

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Abstract

The recent establishment of the Asian Infrastructure Investment Bank (AIIB) is widely seen as a major shift in the regional and global economic leadership, with overwhelming support not only from Asian economies but also from major European countries. As an institution that aims to redefine the global economic order, the AIIB poses a significant challenge to the established US, Europe and Japan-led multilateral institutions. It is widely seen as part of China's 'One Belt, One Road' policy aimed at building infrastructure along the 'silk road' under the leadership of Chinese economic might. This paper argues, though, that while traditional economic powers feel challenged by the AIIB, the new bank is, in actuality, based on similar 'neo-liberal' paradigms followed by other multilateral financial institutions like the World Bank, IMF, or the ADB, which will ultimately lead to the further marginalisation and dispossession of Asian communities. This paper attempts to highlight the labour and environmental concerns that the AIIB brings with it, and argues that the new institution does not posit any change or improvement in the conditions of working people in the region. It analyses what the AIIB entails for workers and communities in Asia, and its possible impacts on the environment. It also highlights some of the initial responses and concerns from the civil society against this financial body.

Introduction

On 14 June 2015, about 50 countries out of the 57 founding members signed a memorandum of understanding (MOU) in Beijing, China, paving the way for the establishment of the Asian Infrastructure Investment Bank (AIIB). This was the culmination of a nearly two-year-long process leading to the formation of a Chinese-led Multilateral Development Bank (MDB), similar to the ranks of the World Bank (WB), the International Monetary Fund (IMF), or the Asian Development Bank (ADB). The AIIB was first proposed first by Chinese president Xi Jinping during his tour to Southeast Asia in 2013 as a part of the “New Silk Road” strategy, also known as the “One Belt, One Road” initiative aimed at building infrastructure and enhancing connectivity and economic zones in countries along the historic silk road route (Sekine, 2015). The AIIB will be headquartered in Beijing and its purpose, as per the bank itself, “is to provide financial support for infrastructure development and regional connectivity in Asia”.¹ It has a founding base of about US\$ 100 billion, with China contributing nearly 30 percent of the initial capital and holding the largest number of shares at 30.34 percent.

The establishment of the AIIB is widely seen as a major shift in the Asian or, for that matter, the global economic leadership, and poses a serious challenge to the US-led institutions (WB, IMF and ADB) that have played a dominant role in Asia. In this context, the AIIB is viewed as a major diplomatic victory for China, which, according to some analysts,² has surprised China itself due to the overwhelming support it has received not only within Asia, but also from major European countries including

1 See AIIB website, “What is Asia Infrastructure Investment Bank?” Available at <http://www.aiib.org/html/aboutus/AIIB/>

2 “Stampede to Join China’s Development Bank Stuns Even Its Founder”, The New York Times, April 2, 2015, available online: http://www.nytimes.com/2015/04/03/world/asia/china-asian-infrastructure-investment-bank.html?_r=0

Germany, France, Italy, and the United Kingdom. The United States of America (US) and Japan are two key nations that have not joined the initiative and have instead raised critical concerns regarding its governance and social and environmental impacts. Nevertheless, the US could not keep its key European allies from joining the Bank, despite its best efforts.³ In less than two years, the bank has swiftly become a reality from its conceptual stage, with what can be described as an overwhelming support from the international community that provided legitimacy to the AIIB's Chinese leadership. To address concerns regarding its environmental and social standards, the AIIB has also released a draft consultation paper on Environment and Social Framework (ESF), underlining the compliance framework and mechanisms of their institution (AIIB, 2015).⁴ The document has also been shared on the AIIB's website for comments.

The creation of the AIIB has opened up a struggle for 'economic dominance' between the emerging and the established powers. This paper attempts to analyse what the AIIB would mean for the communities and workers in Asia, and its possible impact on the environment. The paper will also highlight some of the initial responses and concerns from the civil society.

Struggle for economic dominance and the rise of the AIIB

“If we don't write the rules for trade around
the world, guess what? China will.”

—US PRESIDENT BARACK OBAMA, 2015

3 “How to stop worrying and love the Asian Infrastructure Investment Bank”, The Washington Post, April 6, 2015 <https://www.washingtonpost.com/blogs/monkey-cage/wp/2015/04/06/how-to-stop-worrying-and-love-the-asian-infrastructure-investment-bank/>

4 Consultation Draft on Environmental and Social Framework (ESF) of the AIIB (August 2015), <http://www.aiib.org/uploadfile/2015/0907/20150907061253489.pdf>

The formation of the AIIB has to be seen in reference to the existing multilateral development banks (MDBs) and their evolution and impact on development. Multilateral development finance has completed 71 years since its inception following the Bretton Woods conference in July 1944 in the US (Whitol, 2014). This led to the founding of the W B and the I M F, also known as the Bretton Woods Institutions. Asia also has its own MDB, the Asian Development Bank (ADB), established in 1966 with major shareholding from Japan and the United States. The rich industrialized countries have controlled the governance of these institutions, with US playing a dominant role, and the emerging economies having a limited say or voting rights. The US Senate has refused to ratify the agreement since 2010 that would have allowed more participation by the emerging economies in the IMF.⁵ Similarly, China has a limited role in the Japan-dominated ADB.

Frustrated at their limited role in these global institutions, countries such as China and other emerging nations initiated the New Development Bank, formerly known as the BRICS bank, with capital from Brazil, Russia, India, China, and South Africa. China also flexed its economic muscle, with its largest foreign reserves valued at US\$ 3.8 trillion, to lead the establishment of the AIIB. This has led to a new ‘struggle’ for dominance in Asia. Japan, appearing keen not to lose its influence and relevance in Asia unveiled in May 2015 a US\$ 110-billion fund towards Asia’s infrastructure projects.⁶ The US, on the other hand, has been proactively pursuing the Trans Pacific-Partnership (TPP) deal – a free trade pact between 12 countries on the Pacific

5 “US fails to approve IMF reforms”, The Financial Times, January 14, 2014, available online <http://www.ft.com/intl/cms/s/0/8d4755ce-7d43-11e3-81dd-00144feabdc0.html#axzz3pH9BUhrJ>

6 “Japan unveils \$110 billion plan to fund Asia infrastructure, eye on AIIB”, Reuters, May 21, 2015, available online <http://www.reuters.com/article/2015/05/21/us-japan-asia-investment-idUSKBN0O617G20150521>

Rim in what is described as the largest trade deal in decades – that would bring together nearly 40 percent of the global economy including Asian nations like Vietnam, Singapore, the Philippines, Malaysia, and Japan. China is not part of this deal and is widely seen as the US’ push to reduce the influence of China in Asia.

Though China has challenged the hegemony of the US and other Western countries, what many call as ‘redefining the global economic order’, this does not mean the situation will change for the better for people and workers on the ground. It only means one power centre replacing the other, and, in this case, China’s leading a developmental institution and being legitimized by others is becoming a cause for concern among many activists. There are two main reasons for this: one is the problem with MDBs themselves, which have been promoting a certain kind of growth that has led to severe problems in many Asian countries; two, with China now leading and promising to lead and fund socially and environmentally friendly development even as its own record human rights and environment protection records are getting worse.. Both of these issues will be discussed in detail.

Multilateral development banks (MDBs) and the imposition of growth

MDBs were initially involved in post-war (Second World War) reconstruction. However, these institutions have been used in the past three decades as vehicles for neoliberal growth’ by initially espousing the ‘Washington Consensus’ that promoted trade liberalization, privatization of public goods, deregulations, and emphasis on foreign direct investments (FDIs), among others (Hughes, S., & Haworth, N. 2011). This has led to lending that is based on conditionality, especially via the structural adjustment programmes (SAPs), leading to massive economic restructuring.

SAPs made things worse economically in many countries (Nega & Schneider, 2011). It was also seen as being problematic as conditionality was imposed externally, overriding national and democratic decision-making processes. Moreover, Bretton Woods institutions have often been seen as vehicles for delivering US foreign policy and serving the interests of the US. In their study, Nega & Schneider (2011) also challenged the ‘political neutrality’ of the WB and the IMF that have continued to support authoritarian regimes in Africa.

The ADB has also been lending based on certain condition, which have allowed for deregulation and free market access. Interestingly and ironically, the W B, the IMF and the ADB have increasingly positioned themselves as an institution that confronts poverty; the ADB’s stated aim, for example, is “Asia and Pacific free from poverty.” This is problematic as many see the promotion of ‘neoliberal growth’ as the prime reason for the growing poverty and inequality in the Asian region despite high growth rates among individual countries. MDBs have likewise been criticized for viewing poverty often in terms of living on or under a certain number of US dollars per day as the ADB does, thereby failing to take into account communities who may not have market transactions or the rising inflation. Similarly, they are sometimes accused of understanding or explaining poverty as the failure of the ‘poor’ and ‘marginalised’ to access markets often due to lack of infrastructure. This, in turn, is seen as a justification of investment in huge infrastructure projects – including highways, dams, power stations, and mines – that would supposedly allow better market access for the poor and thus alleviate poverty. Many critics argue that this ‘technical process’ of development overlooks the critical and complex social and cultural processes on the ground and fails to effectively include grassroots communities (Sims, 2015). Similar ‘technological fixes’ are carried out all across nations to bring about development irrespective of local diversities. It comes at

the dispossession and marginalisation of vulnerable communities who continue to remain excluded from the benefits of growth (Harvey, 2007). This model of growth, accompanied by the decline in the bargaining power of the workers and communities due to a reduced democratic space, has led to the creation of wealth inequities of unprecedented scale.

Infrastructure development and the AIIB

If ‘One Belt, One Road’ is like a symphony involving and benefiting every country, then [the] construction of the China-Pakistan Economic Corridor is the sweet melody of the symphony’s first movement.’

—WANG YI, China’s foreign minister,
speaking in Pakistan in April 2015

China’s rise in the economic ladder is based on its manufacturing successes that have exploited and continue to exploit millions of migrant workers in Asia. In 2013, Asia accounted for nearly half (46.5 percent) of the global manufacturing output, and more than 20 percent of this came from China. According to UNCTAD (2014), TNC-coordinated supply chains (global value chains) account for 80 percent of the global trade, while Asia accounted for nearly 50 percent of the global trade in intermediate inputs to be pieced together into a final product, underlining the fact that Asia is a ‘supply chain’. Asia continued to be the top FDI destination in the world, receiving about US\$ 382 billion FDI inflows in the year 2013 or nearly 30 percent of the total global FDI inflows (UNCTAD, 2014). In 2013, developing Asia contributed about US\$ 326 billion towards the FDI outflow, nearly 71 percent of the total FDI outflows from developing economies. A major source of this FDI is the region of East Asia, including China that accounted for an FDI outflow of US\$ 100 billion in 2013. What is

interesting to note is that East and Southeast Asia are increasingly the major source of FDI investments within Asia. For example, in the ASEAN region, the biggest source of FDI (24 percent) came from ASEAN itself, and Asia accounted for more than 50 percent of the ASEAN FDI.

Interestingly, the AIIB just took many leaves out of the ADB book, to justify its establishment. Almost all media accounts mentioned the ADB report that estimates an investment need in Asia in the amount of US\$ 8 trillion in infrastructure from 2010-2020. China has been spending vast amounts of money in building infrastructure in Africa and Southeast Asia. During the first phase of ‘One Belt, One Road’, China is expected to invest about US\$ 46 billion to develop a trade route in Pakistan, which involves building highways, power stations, a railway line, and a port. To this end, China is using the same arguments previously employed by the ADB, placing emphasis on improving infrastructure continues to be a “bottleneck to growth threat to competitiveness, and an obstacle to poverty reduction” (ADB, 2008). In 1992, ADB coordinated a development project of the Greater Mekong Sub-region participated by six countries, including China, Cambodia, Laos Myanmar, Thailand, and Vietnam (Sims, 2015; ADB, 2008). Despite ADB’s spending of US\$ 14 billion to facilitate trade, development, and infrastructure ties between these nations, poverty remains rampant in the region, not to mention that the project dispossessed thousands of people and created new forms of poverty and inequity.

Impact on workers, community, and the environment

Even though the AIIB has yet to fund any project, it is important to understand the political, economic, and cultural landscape within which these projects will operate. Asia, with its population of four billion people, finds itself faced with a very interesting

juxtaposition. On the one hand, it is widely regarded as the production hub of the world, especially the East and the Southeast Asia), and has time and again brought the world out of its worst financial crises due to its huge domestic markets; on the other, it continues to have the largest population of poor people in the world estimated by the ADB to be about one billion.

Vulnerable employment in Asia

Development, as conceptualised by these financial institution, continues to dispossess millions in Asia of their resources, including land and water, and of their rights for them to be subsumed into the global production chains. The situation is no less than that in countries like Cambodia, India, the Philippines, and Indonesia, where millions of farmers and indigenous peoples are forcibly evicted from their lands and forests by either the state, a nexus of the state, and corporations to pave the way for export processing zones, mines, plantations, or real estate businesses. Dispossessed people, especially women, become the most vulnerable to exploitation, as they are forced to leave their own countries; they become immigrant and migrant workers contributing to what is described as the largest human migration on earth. They are forced to sell their labour to survive and are subsumed as informal, home-based, and/or contractual workers in the supply chain that feeds MNCs to produce garment, consumer electronics, and, increasingly, food commodities. They form ‘billion’ of working population in a ‘vulnerable employment’ (ILO, 2014), mostly in informal economy that accounted for more than 70 percent. As per the International Labour Organisation, within Asia, South Asia has the largest percentage of vulnerable employment at 76.4 percent, followed by Southeast and East Asia at 59.7 and 46.5 percent, respectively. Women’s share in vulnerable employment in Asia is more than that of men in all regions of South Asia,

Southeast Asia, and East Asia with percentages of 81.1, 63.9, and 51, respectively. In East Asia, women in vulnerable employment comprise 51 percent compared to 42.9 percent for men, 63.9 percent compared to 56.6 percent for men in Southeast Asia, and 81.1 percent compared to 74.7 percent for men in South Asia.

Working Poor

Asia also has the largest number of the working poor, earning US\$ 2 a day or less. Nearly 72 percent of the global working poor live and work here, numbering to about 636 million people, and within Asia, more than half or nearly 390 million live in South Asia. However, it has to be noted that the definition of the working poor definition (living on a daily wage of less than US\$ 2) does not seem to be accurately representative in the present context, considering inflation in the past few years in Asia and the increasing living costs. In this context, ILO has come up with a new benchmark called “near-poor,” consisting of workers who earn between US\$ 2-4 a day. By adding the figures for the working poor and the near poor, it appears that despite decades of supposed growth, most of the working population in Asia is poor, or near poor. In East Asia, nearly 45 percent of the total number of people employed are poor or near poor, while figures for Southeast and South Asia stand at 69 and 93 percent, respectively.

Women workers constitute the majority of the working poor in the region, and they continue to suffer from multiple layers of marginalisation, including gender inequality and gender-based discrimination. Women tend to be over-represented in informal work and in the most precarious and hazardous kinds of employment, and are concentrated in low-skilled jobs with low pay, excessive working hours, and dangerous working conditions.

Rising inequality: growth without benefits

Popular French economist Thomas Piketty was able to bring the ‘historical inequality’ debate to the mainstream through his book *Capital in the Twenty First Century* (2014). Through extensive data, Piketty showed that “60 percent of the increase in US national income in the 30 years after 1977 went to just the top 1 percent of earners”. ILO also notes, “the richest 10 percent earn 30–40 percent of total income globally and by contrast, the poorest 10 percent earn around 2 percent of total income” (ILO, 2015). With the integration of Asia into the global market, inequality is also growing in these countries, with China having one of the most unequal income distributions in the world believed to be even worse than those of the US (Xie Y & Zhou X, 2014). It is also clear that ‘growth’ does not necessarily bring about employment, which is clearly visible in the case of China where despite an average GDP growth of nearly 10.5 percent from year 2001-2008, employment growth was only at 0.9 percent. Similarly, the Philippines, which in the past few years have witnessed growth in range of 6-7 percent, have one of the highest employment rate in the region at 7 percent. It is also clear that though businesses and financial institutions have completely recovered from the financial crisis of 2008 and profits have reached a much higher level than that in the pre-crisis state, employment has yet to return to pre-crisis levels and is predicted to be even worse in spite of the reported growth and the profits (ILO, 2015).

Environmental and occupational health

Development in Asia has come with a huge cost on human health and damage to environment. The growth model allows internalising profits for corporations and externalising risks to the society. Over the past decades Asia now has the highest global death toll due to occupational and environmental hazards, with casualties over work-related reasons estimated at about 1.1

million,⁷ and millions more are getting sick and/or injured. The majority of the recorded deaths and injuries take place in China, which has the most unsafe workplaces. In China, it has also been estimated that nearly 1.2 million people die every year due to air pollution,⁸ which is more than 4,000 deaths every year. As per the World Health Organisation (WHO), of the 10 most polluted countries in the world, eight are in Asia. These unprecedented costs to the society and the state have not been included in the projected costs.

Reduced democratic space for organising

Countries in Asia have likewise experienced severe restrictions in freedom of association due to a reduced democratic space for organising workers and launching peaceful protests. China is the notorious case, curtailing the already limited space of civil society groups. China is also in the process of creating an NGO law, which is expected to severely restrict any form of civil society formation in the country, especially rights-based organisations. In the past few months, government authorities in the country have arrested human rights activists numbering to more than 100.⁹ This is happening not only in ‘single-party’ states like China, but also supposed democratic countries like Cambodia that has already implemented a new NGO law restricting the freedom of civil society groups, including trade unions. Similar laws or amendments also exist in Pakistan, India, and Indonesia.

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- 7 Safety and health at work in Asia and the Pacific, available online: <http://www.ilo.org/asia/areas/safety-and-health-at-work/lang-cn/index.htm>
 - 8 “Air Pollution Linked to 1.2 Million Premature Deaths in China”, New York Times, April 1, 2013, <http://www.nytimes.com/2013/04/02/world/asia/air-pollution-linked-to-1-2-million-deaths-in-china.html>
 - 9 See <http://edition.cnn.com/2015/07/13/china/china-activists-arrests/>

AIIB environment and social framework

“China and all the member-countries of the Asian Infrastructure Investment Bank (AIIB) will be committed to building a bank, which would be lean, clean and green.”

—JIN LIQUN, Secretary General,
Multilateral Interim Secretariat of AIIB

Based on the history of MDBs in Asia, and based on the path that the AIIB is expected to take, it seems that its social and environmental framework is mere rhetoric. Many analysts are hoping that China will ‘behave’ if it acts through a multilateral agency like the AIIB, but others believe it is precisely using multilateralism only as a ‘safe’ cover to its ambitions, and is particularly bullying its smaller neighbours like Vietnam and the Philippines, what with its recent military excursions in the South China Sea.

While the AIIB has released a Consultation Draft on Environment and Social Framework, it falls short in terms of providing any credible protection to communities on the ground. The NGO Forum on ADB, an ADB watchdog, expressed concern over the ESF Consultation Plan, as it appears that the time for consultation, which is August to September, was too short to result in any meaningful discussion. The forum also noted the marked absence of the term “civil society” in the document. In addition, even as the AIIB has extended the consultation period to October 23, they still feel that this is insufficient, and that there needs to be at least two rounds of consultation, including face-to-face meeting. The forum is also demanding that the consultation process be transparent, accountable, and gender-sensitive, and ensure the inclusion of marginalised groups, including indigenous peoples.

Issues with the AIIB related to Labour have not been addressed adequately, and while the framework cites adherence to the local

laws, freedom of association does not exist in domestic laws in many countries, including China. The framework does not include adherence to ILO conventions that are internationally accepted.

There is also a certain paradox in the AIIB's claims of adherence to health, safety, and environmental protection, considering China's record and that of the other participating Asian countries. Many of them continue to use dangerous substances that have been banned in industrialised countries. These substances include asbestos, with China and India being the two largest consumers of asbestos, and there is no guarantee in the framework that this particular substance will not be used in its infrastructure projects.

Way ahead: A question for grassroots democracy

“I think it [AIIB] will be another player alongside the regional development banks – Asian, African, Latin-American, European and alongside the World Bank. But in my view, the more we have the resources to address the investment needs and to eradicate poverty, the better.”

—ARANCHA GONZALEZ, Executive Director

International Trade Centre

A report by Qing¹⁰ explains how China carefully developed the framework for AIIB, by roping oil-rich Gulf States to pitch in the much needed dollars, They did not, however, expect the overwhelming support from unexpected European countries, which subsequently provided it a much needed legitimacy. There are different versions as to why Europe decided to join the AIIB, defying its ally, the US, and the economic benefits that come

10 “How China decided to redraw the global financial map”, Reuters, Sep 17, 2015, available online <http://www.reuters.com/article/2015/09/17/us-aiib-china-insight-idUSKCN0RH2XJ20150917>

with such an alliance, especially as Europe is already feeling the financial squeeze. It can be surmised, however, that for these countries, being part of the AIIB would allow them to monitor its social and environmental compliance. However, it is difficult to imagine if any control can be exerted by Europe on China. Groups working in China have witnessed an increase in cases of human rights violations in China in the past year, while Europe has maintained its silence. Doing business with China, after all, has become so important owing to its massive market, that human rights activists cannot expect to garner support for its advocacies from European countries.

Many European countries also have to raise money, through taxes, to pay for their shares in the AIIB, sometimes at the expense of overseas aid usually allotted for human rights advocacies. The key question remains thus: can development be brought from the outside – similar to the US’ bringing democracy to Iraq or to China’s construction of highways in Pakistan whether the people of Pakistan actually want it or not. Capitalisation of money in one big institution that drives development externally has been a cause for concern as it undermines local institutions of democracy and even supports authoritarian regimes, as was the case for the WB, the IMF and the ADB. Now, a new “development” institution in the form of the AIIB is itself being led by an authoritarian regime supported both by authoritarian regimes in the Middle East and “democracies” in Asia and Europe. It can be best described as a major crisis of democracy, where economic interest subsumes democratic values and principles.

Supporting the AIIB may thus come at the expense of resources that could otherwise be used for grassroots organisations, to build sustainable grassroots democratic institutions and help organise the vulnerable and the marginalised, so that they themselves can decide for their future. This forms a critical juncture in global history that needs deeper introspection.

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