

Working Paper

on

The Reform of the Urban Water Supply  
in Southern China  
--- Water Privatization in China

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## PART I

### The Development and Reform of China's Urban Water Supply

#### Introduction

*"I think it's unfair to criticize the Chinese government for supporting water privatization. There are many rationales behind the introduction of private capital. The government is facing a lot of problems, such as poor water quality, lack of tap water in remote areas and wastewater problems, because there's limited capital and financial support for the building of infrastructure. That's why we need to involve private companies. Once they bring money to the water supply sector, many problems can be solved. Besides, the management of private firms will definitely be better than the bureaucratic state-owned-enterprises. If a private firm can run the water supply service in a better way, why should we be against it?"*

--- This is the opinion expressed by a middle-aged Hong Kong man in a well-educated manner during the Human Rights Day Carnival 2008 in Hong Kong. Many people who support China's water privatization movements share this man's views and logic.

Problems associated with China's urban water supply before its reform included water shortages, aggravation of water pollution, capital shortage, poor management, poor coverage, and low efficiency of water usage. The Chinese government, together with the support of international agencies such as the World Bank and the Asian Development Bank (ADB), assumes that the privatization of water will solve these problems. In late 2002, the Chinese government expressed her full-fledged commitment to private involvement in water management by issuing a document encouraging local authorities to open their water market to private capital and foreign investments. During the following period, we can observe many major movements in the water industry, such as large-scale contracts obtained by transnational water giants like Suez and Veolia, and the rise of local water corporations such as the Beijing Capital Group and Shenzhen Water Group. It seems, that the water supply in urban China has transformed into a more 'advanced' and 'modern' industry, with the supportive posture of the government, the blossoming water-related businesses, and the grand achievements stated by the water corporations. However, in the process of reformation, what we have seen is not only the transfer of operating rights or infrastructure from state-owned-enterprises (SOE) to for-profit private companies, we also have observed that water is

increasingly being managed according to commercial criteria, which demonstrates the government's fundamental conceptual change regarding water --- *from a common good to a trading commodity*. It leads us to ask: **Who has the control over precious water resources and services? How can we ensure an equitable, as well as a sustainable water use?**

Furthermore, after the beginning of market reform, what are the pictures of water management in urban China now? Does the reform really improve what the government expects private sectors to improve, such as better service quality? From the conversations we have had with the citizens in south China, there are three issues that concern the general public most: *water quality*, *water tariffs* and *water provision*. We have found that many citizens are unhappy with the water quality; many have complained that the "Water price has been increased in the past years, but the water quality does not improve accordingly." Some even say, "I cannot see what kind of services the company has provided to us." There is nothing they can do to improve the situation though; "There is no way for us to express our opinions," "What can we do? We still have to eat even if the quality is not good." It seems that private water companies do not keep their promises of providing a better service to our people, but only focus on how to expand their businesses. This leads us to ask further questions: **What are the roles of the government in water supply? And what are the roles and places of people?**

## **Section I    The Water Crisis in Southern China**

In early February 2009, when most Chinese people were still immersing themselves in celebrating their New Year, mass media started to report the serious drought faced by the North China Plain again.

China has almost one-quarter of the world's population but only 6 percent of its fresh water (Barlow and Clarke, 2002). The water crisis in China is not a new piece of news to the world, as the severe water shortage in north China has been widely and frequently reported (because north China faces critical drought so often!). However, the well-known problems of the thirsty North, give the illusion that south China does not suffer from water shortages. This was probably true before China became the World's Factory.

Many parts of south China have been named as "Water-Towns" or "Land of Fish and Paddy" because of their good reputation for rich water resources and beautiful landscapes. Unfortunately, the past decades of rapid urbanization and industrialization have posed enormous threats to many

cities in south China, such as overpopulation and environmental pollution. Our investigation shows that while the north of China has been suffering from geographical water shortage, the south China is suffering from quality-induced water shortages because of serious industrial pollution. Water quality in many cities' lakes and rivers is deteriorating significantly. For example, we have visited Guangzhou several times during our study period, and found that most rivers in the city are motionless and smelly because of industrial and/or household wastes (Photo 1), and this is only the tip of the iceberg. According to the Water Resources Department of Guangdong, half of the rivers in the Pearl River Delta have been polluted. The pollution of some sections is so severe that it has become irreversible (Hong Kong Commercial Daily, 2008-12-12).



Photo 1: Rubbish floating on a motionless and smelly river in Guangzhou. (Photo by GM)

Photo 2: The pollution of water source in Fuzhou, Fujian province. (Photo by GM)



The water quality in Fujian province is getting poor as well, as one of our interviewees indicate, *“I notice that there is some difference with the water quality after the building of all those factories in our place. The well water is contaminated now, so we usually do not use it for eating but washing. The stream water used to be very clear, but it has turned into milky water because of the stone factories. The grasses along the riversides do not grow now.”*



Photo 3: River in Fuzhou serves as a household waste dump. (Photo by GM)

China's severe water pollution is mainly because of the imbalance between rapid industrial development and a wastewater treatment capacity that is lagging far behind. As China is eager to develop her industry and economy, she allows an unreasonable growth of manufacturing sectors without considering adequate investment for building the necessary infrastructure. Moreover, in order to attract more investment, environmental protection measures are usually quite lenient. Even worse, the local authorities do not seriously carry out the protection plans, either because of corruption or other personal consideration. It is obvious that in the pursuit of industrial and economic development, local authorities are often holding a "pollute first, control later" attitude. The lack of social responsibility of the for-profit entrepreneurs poses another hazard to our environment. Since the turn of the century, many companies have moved their factories from the southern coastal regions, such as Shenzhen and Dongguan, to other regions with lower economic development, such as the northern regions in Guangdong province, or other provinces in western, central and northern China. These moves are mainly because of the increasing labor cost, and the gradual tightening of water-quality controls in Guangdong. After moving to the less developed regions, the factories can enjoy the lenient environmental protection measures with minimum fines if they do not follow the environmental regulations. This means that after the factories have polluted our downstream areas, they are then moving upstream.

The hazardous water pollution exacerbates the water shortage problem, and results in an alarming increase in the number of water-borne diseases. In 2007, a more critical Chinese newspaper in Guangdong, Nanfang Daily, produced a series of reports on China's water crisis, which unveiled many "Cancer Villages" in coastal cities because of serious water pollution and sewage irrigation. In short, China astonishes the world with her economic 'miracle' at the cost of her valuable fresh water and people's health.

South China's water pollution and water shortages are mainly caused by capitalists'

over-exploitation of resources for their own wealth accumulation. Ironically, these capitalists are now participating in China's water sectors and 'give China a hand' in solving the water shortage and pollution problems. They are hence making even more money by cleaning up the mess they have left behind.

The water shortage problem is a crisis for people and the environment, but water corporations have treated this crisis as a golden opportunity for making great profit. One factor associated with water privatization which worries us is that no matter how well-run and how responsible a private water company is, it will not encourage water to be saved because its primary objective is to make profits through water consumption. However, due to the severe water shortage worldwide, conserving water should be our top priority.

## **Section II Voices about Water Privatization from Mainland China**

This section examines the voices that can be openly heard about water privatization in China. There are three categories: mass media, academic research, and publications by investing companies. Research and books published by investing companies, both locally and overseas, are usually about China's water market analysis and thus encourage investment (U.S. Department of Commerce, 2005).

We can obtain other information about China's urban water supply from mass media and academic research covering the development of water companies, policies, big transactions etc. In general most media reports and academic publications agree and appreciate the ongoing reform project. Regarding the reformation, the majority of the literature comes from "the management and organization sciences and the orientation is less focused on state failures and governance, but rather on efficiency, the bringing in of new capital and the introduction of market logics" (Zhong, Mol and Fu, 2008).

Occasionally we can find some more critical reports and discussion on the potential problems of private sector participation in China's water supply; however, such articles are usually pointing at transnational corporations. For example, in 2007, Veolia obtained three big contracts in China: Lanzhou in north China, Kunming and Haikou in south China. Veolia won these three bids by deploying the strategy of high premium. Many newspapers reported on this and raised the question of possible water tariff increases in these areas, as well as implying an unfair competition between the capital-rich transnational water giants and local water companies. We do not see any critical

discussion about the growth of local water corporations however. On the contrary, stories covered by newspapers about local water corporations tend to appreciate the ‘successful’ expansion of local water corporations, such as Shenzhen Water Group. Mass media, especially newspapers, serve as the most accessible means for the general public to gain information about societal developments, but cannot serve as a critical media in China to discuss alternative water management, or raise the discussion about the possible harmful effects of water privatization on society. It is not because the mass media are not interested in these topics but because they know these are sensitive topics for them to work on.

In academia, it is also difficult to find alternative voices about China’s water management, or debate on whether water privatization is really beneficial to people. Regarding private sector involvement in China’s urban water supply, most of the discussions focus on the advantages of effectiveness and efficiency of private participation, and debate the best organizational modes, division of responsibilities, and coordination structures (Zhong, Mol and Fu, 2008). Dr. Tao Fu, who studies China’s urban water development extensively, has published numerous articles and books on reform, management, financing and policies analysis. He and colleagues write that the “potential negative outcome of private sector participation is much less emphasized” in the Chinese discourse, and point out that negative outcomes include “loss of the decision-making autonomy of states and governments; unequal power relations and information asymmetry in public-private partnerships; problems around equity, access for the poor, participation and democracy in decision-making.” (Zhong, Mol and Fu, 2008) He agrees, however, with the current water supply reform project and he thinks alternative water management is impossible for China; “there’s no turning back” for China in water governance (opinion expressed in AEPF 2008 in Beijing).

The only different voice we can find in Chinese publications, and probably the only voice at all, is a book written by Dr. Gan-quan Chen (2007). Dr. Chen’s study is about the privatization of public utilities in China, therefore it is not exclusively talking about the water supply. In his book, Dr. Chen tries to remain neutral on the question of whether public utilities should be privatized or not. However, there are three arguments he emphasizes throughout the book: First, utilities are something public and special, therefore we should not manage them by only considering cost-effective problems; public interests and equality are more important and should be placed as top priority. Second, China has not developed herself into a mature society with well-established legislative and administrative systems, and these are the essential prerequisites for privatization. Third, even utilities are privatized and so government involvement should be strengthened instead of diminished because the government has changed her role from a service supplier to a monitor. Dr.

Chen's discussion echoes our stance about water management: people's interest and equitable water usage should come before profit. This, however, is only a minority voice outside the mainstream discourse.

### **Section III The Development of China's Urban Water Supply**

China's urban water supply is included in her public utilities reform scheme, and shares the same developmental pathways as other utilities, such as the electricity, transportation and communication sectors. Therefore, when we study water privatization, we have to put it in the context of China's public utility development.

When China started to establish a socialist regime in 1949, she also established a command economic system characterized by the centralization of production, ownership and resource redistribution. At that time, the government was the main body responsible for the investment, construction and operation of public utilities. Urban water sectors were State-Owned-Enterprises (SOEs), and financial support exclusively came from the central government. In return, the profits made by the water entities were handed over to the central government for re-allocation. Water supply services were provided and managed as a form of social welfare, and so either cost little or were free of charge. The practice of this conventional public utility governance and financing was carried out for 30 years, up until China's open door policy was implemented in 1979. Under the core policy of "**Separation of Governments and Enterprises**", the economic system in China experienced dramatic changes. There were two major adjustments following the introduction of the policy of "Separation of Governments and Enterprises". Firstly, although the public entities were still SOEs, they experienced a transition from central government to local governments in terms of tasks and responsibilities. Secondly, the policy authorized the enterprises to become independent accounting units. Under these circumstances, enterprises can trade freely, and assume sole responsibility for their own profits and losses. China's urban water experienced reform against this background as well. The reform, however, can be divided into different stages.

**Stage 1** From the early 1980s to mid-1990s, China started to experience rapid urbanization with an increasing demand for water supply and wastewater treatment infrastructures. The water supply plants and wastewater plants still enjoyed certain governmental subsidies. At the same time, local governments built their water plants by taking inter-governmental loans, or taking loans from international financial organizations where the governments acted as guarantors and the ownership

of water plants belonged to the local governments. In 1994, the *Urban Water Supply Regulation* promulgated by the State Council stipulated that “urban household water tariffs should be set in accordance with the principle of cost recovery and trivial profit” (Ge 2008). The water tariff was subsequently raised substantially.

According to the staff of water entities, in the early 1990s, after the policy of “assuming sole responsibility for their own profits and losses,” was introduced, water entities started to change their names into “Companies” although they were still SOEs. At the same time, the staff of water entities enjoyed better welfare benefits, such as pay rises and better gifts at the end of a year, than before. This proves that water firms were quite well off with their revenues.

**Stage 2** From the mid-1990s to 2002. Industrialization and urbanization continued with severe water pollution problems. The demand for China’s wastewater treatment infrastructure much exceeded supply. In order to solve the water pollution and capital shortage problems, the Chinese government started to introduce the Public-Private Partnership (PPP) and the Build-Operate-Transfer (BOT) approach into the field of her urban water infrastructure. This was based on two policy papers issued by the Chinese government in the mid-1990s: The *Circular on Attracting Foreign Investment through BOT Approach*, and the *Circular on Major Issues of Approval Administration of the Franchise Pilot Projects with Foreign Investment*. These two Circulars “formed the first legal grounds for private sector involvement and foreign capital investment in China’s urban infrastructure” (Zhong, Mol and Fu 2008). As expected, foreign water enterprises began to enter China’s water sector via the bringing in of the technology for wastewater treatment and the establishment of wastewater treatment plants, with a fixed investment return. Due to policy limitations, however, the investment of foreign water firms mainly concentrated on the wastewater sector and so expanded slowly during this period.

Household water tariffs kept rising during this period, but wastewater treatment and water resource costs were not included as part of the water tariff.

**Stage 3** 2003 to the present. In December 2002, the Chinese government showed her determination regarding full scale water privatization by promulgating another policy paper, *Opinions on Accelerating the Marketization of Urban Utilities*. In this document the central government encourages local governments to open the doors of urban utilities to foreign and domestic private investors. It also states that the formerly state-monopolized sectors should open the market and introduce competition as a mechanism to improve their management. Since then, China has applied different models of private sector involvement in over 300 water supply and wastewater projects

(Zhong, Mol and Fu, 2008). Both foreign and domestic water corporations participate actively in China's water supply and wastewater industries. The issue of the fixed investment return has been modified in the contracts, thus in most cases, private investors have to share the risks.

The general situation of China's water sectors after her full scale privatization reforms are as follows:

- By the end of 2004, the service coverage rate of the urban water supply was 88.8%. Urban wastewater treatment lagged behind, with a service coverage of 45.6%. It is expected that there is still a lot of room for development and investment in China's water market. China aims to establish another 1000 wastewater treatment plants before 2010, in order to meet the objective of treating 60% of municipal wastewater. There is little wonder why both transnational and domestic water firms pay a lot of attention to, and take part actively in China's water market.
- Tariff reform with full-cost recovery has been promoted during this period; wastewater treatment costs have been included in the water bill in many cities. Household water tariffs are expected to go on rising because the extent of the commercialization of water is getting greater and greater, together with the increasing wastewater treatment costs.

Based on the policy papers issued by the central government, we can see that there were different emphases during the different stages. In the early years of market reform, the emphases were especially on **the opening of the market** and **financing issues**. This is demonstrated by the policy of a fixed investment return rate for investors, which was aimed at attracting capital, during the early stage. The policy papers issued in the later years started to address governmental regulation, transparency and public participation. However, what we have observed is that although local authorities have usually responded quickly to the call for opening the market and attracting private investments; but when it has come to issues such as governmental regulation or public participation, it has taken a long time for them to act. For example, the document which corrected the neglect of governmental regulation in the previous policy papers, *Opinions on Strengthening the Regulation of Public Utilities*, was issued in 2005, but there is still a lack of "a systematic and comprehensive regulatory framework for the Chinese urban water sectors in practice" today (Zhong, Mol and Fu, 2008). With regards to public participation, progress is even slower. Although there is a public hearing when water firms want to raise water tariffs, this does not represent a real opportunity for the public to express their opinions because participation is restricted by the water firms and related government departments.

The water privatization process also reveals the “**problem-oriented**” approach the Chinese government adopts in her utility market reforms. When there is a problem related to inadequate financial resources for urban infrastructure building, the Chinese government opens up her market to private sectors offering fixed investment returns; when there are problems because of the fixed investment returns policy, the government issues another policy paper to modify the contract terms with the private investors. There are numerous examples of this happening in recent years. The Chinese government and scholars often explain that this happens because the marketization of public utilities is still an experiment which China is new to. However, this also shows that the Chinese government does not have a systematic plan for her reforms and development. She has not anticipated possible problems and made corresponding policies to deal with them, before implementing the schemes. Instead, she has taken the attitude of “develop first, control later” again in the pursuit of economic development.

## **Section IV**

### **The Current Status and Characteristics of the Water Supply in China**

#### **1. The Current Landscape of Private Sector Involvement in China**

There are many water supply firms of different scales in China. Every city has its own individual water supply firm, and multiple water firms existing in one town or city is also a common phenomenon. By the end of 2004, there were more than 2000 water supply firms in the 668 cities of China. In **Shenzhen** alone there are 43 water works owned by 26 different water firms.

According to a survey conducted by the Ministry of Construction in 2005, various forms of private sector involvement can be identified in both water supply and wastewater treatment sectors: (1) in the commercialization of public utilities, which means that public entities are transformed into independent corporations; (2) in management contracts; (3) in lease contracts; (4) in Greenfield contracts, such as BOT, TOT; (5) in concession contracts; (6) in joint ventures; (7) in full scale privatization, which is the sale of public assets to the private sector. Up until July 2005, a total of 152 water supply projects and 200 wastewater treatment projects involved private participation (Zhong, Mol and Fu, 2008). The joint venture approach had the largest share in the water supply making up 51% of the 152 privatized projects. The Greenfield contracts dominated in the wastewater sector, with 59% of the 200 projects. The

commercialization of governmental utilities also played an important role in both water supply (16% of 152 projects) and wastewater (13% of 200 projects) (Zhong, Mol and Fu, 2008). Full scale privatization occurred most in the field of water supply and mainly in small projects in specific provinces. This is understandable as the Chinese government will not sell water firms or plants which are making a profit. Instead it keeps them and transforms them into independent corporations, since a well-developed water corporation can be counted as a municipal economic success and a political achievement.

## **2. Private Sector Involvement in Southern China**

The form of private sector involvement is usually determined by the level of development of water and wastewater infrastructure, as well as the local economic, social and political conditions of a city. Therefore, the southern coastal areas (e.g. Guangdong and Fujian provinces) and the eastern coastal areas (e.g. Jiangsu province) have witnessed high levels of reform in their water sector, due to their richer markets and the higher payment capacity of local residents. Over 60% of the foreign private sector investment in water supply projects and about 50% of the foreign private sector investment in wastewater projects has been implemented in these coastal regions (Zhong, Mol and Fu, 2008).

## **3. Participation of Transnational Water Giants**

Since China opened her market to foreign investors, many transnational water corporations have participated in China's water reforms. The leading water giants are Veolia Water and Suez Group. The main strategy used, especially in the case of Veolia Water, is to offer high premiums in order to win the bids. The results are substantial. By end of 2008, Veolia Water had signed contracts with more than 20 cities in China, including some big cities such as Shanghai, Shenzhen and Kunming. The selling points for the water giants are their advanced technology, management skills and huge capital.

## **4. Expansion of Domestic Water Corporations**

While the opening of the water market to private investors provides opportunities for the transnational water giants to enter into China's market; it also gives domestic water corporations the chance to expand. Some of them are able to compete with the transnational water giants. The leading domestic corporations, including Beijing Capital Co. Ltd, General Water of China, Shenzhen Water Group Co. Ltd., are either usually former SOEs or the state is still the major shareholder of the corporation now. This background proves to be a great

advantage for the development and expansion of these corporations, as they can benefit from both the private and public spheres in the market reform. Firstly, by opening the enterprises up, they have attracted lots of investments from private investors, which have formed the basis for further expansion. Secondly, as former SOEs or State-owned shareholding companies, the managerial personnel are usually former government officers. Therefore, they have good connections with the corresponding government departments and officials. This is very important in China as *guanxi* (*Chinese*, literally means *relationship*) plays a crucial role in China's political and economic context, as personal connections and relationships determine how much success one can achieve. In the context of the water market, this means "contracts".

In addition, local governments' support makes a substantial contribution to the development and expansion of domestic water corporations. We have observed that many large domestic water corporations have the ambition to develop themselves into trans-regional water corporations. The Shenzhen Water Group Co. Ltd. is a good example.

The Shenzhen Water Group Co. Ltd. In 2001, with the support of the Shenzhen government, the former Shenzhen Water Company merged with the drainage sector in Shenzhen city and formed The Shenzhen Water Group Co. Ltd. with a total asset of 6 billion Renminbi. In 2003, Veolia Water, in association with her partner, the investment company Beijing Capital Group, acquired 45% of Shenzhen Water Group Co. Ltd., with a 50-year contract covering the production and distribution of water, customer relations, and the collection and treatment of wastewater in Shenzhen. This is the largest water project with private sector involvement in China to date. In 2004, the Shenzhen Water Group Co. Ltd. became a listed company; and in 2007 it became one of the "Global 500." Afterwards, the Shenzhen Water Group Co. Ltd. started to broaden its businesses by both investing in other areas' infrastructure and exporting its technology and management services, and gradually become a trans-regional water corporation. The development of the Shenzhen Water Group Co. Ltd. is supported by the Shenzhen government as she still holds 55% of the company's shares. The successful expansion of the Shenzhen Water Group Co. Ltd. demonstrates a local government's power and ambition to help her local firm to develop into a competitive transregional, or maybe later transnational, corporation.

## **5. Government Ownership of Water Entities / State-controlled Companies**

The Shenzhen Water Group Co. Ltd. is one of the examples showing the commercialization of public utilities as one form of private sector participation. It is also an example of Share issue

privatization (SIP). As we have mentioned before, if a water firm is profitable the government will not usually sell it to the private sector, and will instead transform it into an independent corporation, and then perhaps even a listed company if it is a large scale water firm. This has become a common practice in the reform of former large scale SOEs. As Liu and Sun (2005) write, “with the particular aim of helping state companies to raise funds, (the Chinese government) has rapidly developed its stock market since 1992, with more than 1,200 firms listed by year-end 2003, most of them former SOEs.” The Chinese government does not lose her control over these companies, even when they have gone public, because the government usually makes sure that she will be the majority shareholder. There are two ways for her to maintain the majority of shares. One is demonstrated by Shenzhen Water Group Co. Ltd., in which the government sold less than 50% of shares to private sectors. Another way is by introducing a special mechanism, i.e. different ownership classes of shares, so that constraints are placed on agents who hold the shares (Liu and Sun, 2005), to make sure that the government will be the ultimate majority shareholder. Nonetheless, the water corporations are not public utilities any more because they have become listed companies and are being run according to commercial criteria.

## **Section V Privatization in the Context of China**

In China, the term “private sector” was regarded as politically sensitive or even “reactionary” between 1949 and 1979, when China started to establish a ‘socialist’ regime that was characterized by the nationalization of ownership (Zhong, Mol and Fu, 2008). Although China has been launching her economic reforms with “Chinese characteristics” for about 30 years, and the privatization of State Owned Enterprises (SOEs) began over ten years ago, “privatization” is still a term the official press and academia wish to avoid. Therefore, when one browses through Chinese literature and stories about private sector involvement in China’s urban water supplies, one only encounters terms such as “marketization”, or even “socialization” in the place of “privatization”. In fact, when the central government urges the authorities to open their water markets to attract private capital and private corporations, they use terms like “*social capital*” and “*social corporations*” instead. When they cannot avoid the term “privatization” they choose to translate it into “Minyinghua”, literally meaning “*run by civilians*” or “*run by people*”, and not the proper translation of “Siyouhua”. The translation of “Minyinghua” was first used by Taiwan’s pro-independence supporters as an alternative to the KMT (Kuomintang) controlled state owned

companies. The borrowing of the translation from Taiwan only serves the purpose of covering up the truth, just as they did in Taiwan, because neither privatization nor the commercialization of water supplies means anything close to something “run by people”. In his argument, Dr. Chen (2007) states that the word “Siyouhua”—the proper translation of “privatization”— is the best interpretation of China’s current development of public utilities, but he still uses “Minyinghua” in his book. It is reasonable to guess that his book would have been censored if he had used the proper translation of “*privatization*”. Therefore it is not surprising to see that even today there are still many officials and scholars who refuse to admit that privatization of water supplies, and public utilities as a whole, is occurring.

In the narrow sense, privatization means transferring the ownership of business from the public sector to the private sector. In the broader sense, privatization refers to the transfer of any government function to the private sector. This includes governmental functions like regulation, revenue collection and law enforcement. In China most municipal water privatization schemes today usually do not involve the total transfer of state assets. Instead, privatization takes the form of a transfer of operating rights and managerial functions to private companies. In the case of Share Issue Privatization (SIP), where the water firms have been transformed into shareholding and listed companies, the state or the local government usually remains the major shareholder in most situations. This is also generally the case for big reformed SOEs; they usually become listed companies, while the central or local government remains, whether directly or indirectly, the major shareholder. In the study carried out by Liu and Sun (2005), they reveal that although the Chinese government directly controls only 9% of listed firms, it controls 72.6% via indirect institutional shareholdings. Thus, they conclude that, “the state is still the dominant owner of public corporations in China, enjoying an ultimate ownership control of 81.6% of firms at the end of 2001.” Some may argue that since the government controls the majority of shares in water supply companies, they may perform better than totally privatized companies in terms of providing water for the common good. We do not think that this is the case, because when these publicly owned companies go through SIP or become joint ventures, they also change from companies that provide for the common good at accessible prices, into profit seeking commercial entities. Both the stock market and private shareholders will make sure that this happens. What is more, this change is in line with the Central government’s general policy of selling off small and medium State Owned Enterprises, while turning big SOEs into profit seeking “modern corporations.” Therefore we cannot see any differences between water companies which adopted the SIP, BOT, or joint venture modes of reform, and completely privately owned corporations in terms of objectives, operation and ambitions. Laying off staff and increasing water tariffs are usually the immediate acts taken by

reformed water enterprises after SIP or BOT, or other forms of “marketization”. Overall we consider that it is appropriate to describe China’s water supply reform as “privatization” even if it is a partial one; however, since local governments often own major shares, we can more precisely describe the reform as “the commercialization and privatization of the water supply”.

## **Section VI Our Standpoints**

Water is a basic necessity. It is something that our environment, humans and cultures rely upon for existence and development. Therefore, water should not be commercialized or traded. We have to safeguard water as a public good. Our viewpoints about water resources and water governance are as follow:

1. Water is a basic human right and an ecological trust.
2. Water should remain public, water supply services should be provided in an equitable and affordable manner.
3. Considering the water crisis we are facing, the government should play an active role in conserving water.

## PART II

### Problems associated with Water Supply in Urban China

#### --- Voices of our people

*“Of course water supply should be run by the government. I think it’s not good for private firms to run our water supply because everyone knows their primary goal is making money and may not care about other things such as quality. If it’s run by the government, they will not consider making profit as their first priority, but will provide you by considering water as a social welfare, because water is something related to live and death.”*

*----- by a citizen of Quanzhou city*

*“The fresh water resource of our town is a nice gift, but the management of the water firm is just too poor!”*

*--- by a citizen of Quanzhou city*

*“There are three main issues related to water supply which concern us the most: water quality, water tariffs and water provision. If the water quality is good, the water tariffs are reasonable, and there’s stable provision of water, then we will not care about what kind of company is running our water sector.”*

*--- by a citizen of Xiamen city*

### Introduction

For a long time, due to the water shortage problem in China, people’s awareness of the importance of water provision used to be far greater than the awareness of the importance of improving water quality (Fu, Chang and Zhong, 2006; p204). The situation is changing, though. In the past two decades, China’s urban water provision has improved with a service coverage rate of 88.8% in 2004 (Zhong, Mol and Fu 2008; p867-868). Most of the people we have met in our fieldwork are satisfied with the water provision situation in their city. The only complaint about water provision

we have received comes from residents who live in the upper floors of old buildings where the water pressure is relatively low. Therefore the water volume is usually very low in peak hours, which causes certain inconvenience to people’s daily lives. Nevertheless, because of the improved water provision services and living standards, people started to pay more attention to other aspects, such as water quality, the quality of water supply services, and the management of the water firms.

In this part, we discuss the problems associated with water supply in urban China and focus on the voices and experience of our people. The data we present here is based on the 260 questionnaires we have completed in 5 cities in southern China: Shenzhen, Guangzhou and Dongguan in Guangdong Province; Fuzhou and Quanzhou in Fujian Province.

### **Section I (a) Poor Water quality**

Many of our interviewees complain about the poor quality of tap water. From the 260 questionnaires we have completed with the general public, the overall percentage of people who expresses that they are “not comfortable” with the tap water is as high as 79.2%, where the percentages from 3 cities in Guangdong province are higher than the two cities in Fujian province (Table 1).

<b>Table 1: The Percentage of People feeling “not comfortable” with the Quality of the Tap Water in 5 cities</b>		
<b>Province</b>	<b>City</b>	<b>Percentage</b>
Guangdong	Shenzhen	88.3%
	Guangzhou	86.7%
	Dongguan	78.3%
Fujian	Fuzhou	76.0%
	Quanzhou	53.3%
<b>Overall</b>		<b>79.2%</b>

The problems found with tap water include precipitates and yellowish water. Some people report that tap water occasionally has an unusual taste. Some also mentioned that they found small worms in the water occasionally. The following conversations show people’s worries about water quality:

Conversation 1:

*GM: Do you feel comfortable with the tap water?*

G007: *Of course not! The quality of water in Guangzhou is getting worse. The water flows down from the taps is in yellow color, sometimes it tastes strange. And there is precipitate! We could drink the water from the well directly without problem when we were in our home village. But the water in this city ... no, you cannot drink it directly.*

Conversation 2:

GM: *Do you feel comfortable with the tap water?*

Q002: *No, I don't feel comfortable with it. How can we feel comfortable with the tap water? Sometimes it's dirty, sometimes it's muddy, not clear ... (stop suddenly) Can I tell the truth? Will there be any trouble?*

GM: *No, don't worry, you can tell me the truth.*

Q002: *I don't feel comfortable with it. Sometimes the water is not clear, sometimes it's yellow, sometimes there will be precipitates... My skin is not in a good condition, so I will be more sensitive to the water quality; sometimes there are reddish dots with my skin after taking shower with the muddy water.*

Conversation 3:

GM: *What makes you said that you did not dare to drink the tap water directly?*

Q013: *I suspect that there are chemical substances inside the water. The water should be contaminated by some sort of heavy metals which we cannot see with our eyes.*

GM: *Why do you think there are heavy metals in the water?*

Q013: *I think the water treatment does not meet the standard. ... The situation in China now is that, we do not feel comfortable with everything which is made by the Chinese!*

Apart from skin problem which caused by the poor water quality, some interviewees also quote their experience of getting sick because of drinking tap water. A woman who has lived in Guangzhou for about 5 years tells us about her experience, *"I do not dare to drink tap water now! When I arrived at Guangzhou, my son asked me to drink the water from the vending machines. But I refused to do so because it takes extra money. However, after I had drunk the tap water for less than two weeks, I got diarrhea! I had to visit doctor at the end! My son teased me for spending more money on visiting doctor than buying water from the vending machines. And I have never drunk the tap water directly afterwards"* (G015).

### **Reasons for poor water quality**

Regarding the poor water quality, our interviewees have their own explanations about the causes of

the poor water quality. Some believe it's because of the severe fresh water pollution, or because the water treatment doesn't meet the standard; some think it's because of the aged pipes in their old buildings; some consider it as a result of uncleaned water tanks. In order to find out the causes of poor tap water quality, we have sought opinions from the officials of the health departments who are responsible for monitoring water quality of the water works. After combining our observation and opinions from other interviewees, we have identified two major contributing factors: water treatment does not meet the standards and secondary pollutions caused by aged pipes.

### **1. Water treatment does not meet the standards**

Inadequate facilities for water examination. The Ministry of Health has issued a new "Standard for Drinking Water Quality" and put it in practice since July 2007. The new Standard has increased the number of indicators of water quality from 35 to 106 items, with 42 compulsory items. The new standard has met the international standard. However, there are only about 15% of the water works in China which carry the necessary facilities and technology to examine all the 42 compulsory items listed in the new Standard. According to a former officer from an investing bank who comes from Fujian province, most water works in the county he lives in are only able to carry out a one off examination, which is when the water works start their production. This is mainly due to limited necessary facilities and technology for carrying out the examination. Even for those water works which have their own laboratory, the examining capacity is very limited --- they can only cover 10 to 20 items. The limited capacity for water quality examination is mainly caused by inadequate investment in equipments, even when the water works/firms are making profit after private sector involvement.

Monitor mechanism does not work. There are two health departments responsible for monitoring the quality of drinking water in urban China. One is Centres for Disease Control and Prevention (CDC) which is in charge of water examination; another one is Public Health Inspection Agency (PHIC) which is in charge of law enforcement. We have talked with officers from both departments regarding the water quality of water works. Both of them said, "*What we can do is very limited.*" This is mostly because water supply sector is a monopolistic industry, together with the fact that the water firms are usually quite well off that they can afford fines if their water quality does not meet the standards. As the officer from the PHIC comments, "*Of course there is problem with the water firm! One of its water works did not obtain the Health Certificate from us until last year. The water firm is very rich and it can afford our fines. It knows that as long as it pays the fines, there's nothing we can do with it because we cannot afford to close it down.*"

Regarding the water quality, the first comment made by the officer from the CDC is, “*Basically, the treated water meets the standards.*” But later, he also states that, “*There are only two water works in our city. We cannot afford to close them down; there is no choice for us. So we won’t cause trouble as long as their indicators of bacteria do not exceed too much. But there’s nothing we can do if the water is not clean.*” Therefore, when they say the quality of the water produced by the water works has met the standards, it means the informal standards set by the local health departments, but not the official standards set by the state.

## **2. Secondary Pollution by aged pipes**

Old public pipe system. This is a factor which is openly admitted by the governments and the water firms regarding the poor water quality. When we were doing interview with a managerial personnel from a water firm in Fujian province, he says, “*Basically, our treated water meets the standards, especially with the new equipments we have processed now. I am confident to say that our treated water has met the European standards. The reason for poor water quality is our city’s old pipes. There is a big difference with the quality of the water that has been polluted by the pipe system. This is mainly because the old pipes are usually the concrete pipes or galvanized pipes which have been corroded after years. The pollution caused by the aged pipes will be more visible in rainy days where the muddy water easily penetrates into the pipes and goes to our customers. That’s why we are rebuilding our city’s pipe system now.*” The officer from the CDC shares the same opinion, “*The problem is with the pipes. Many pipes in our city are too old and have got rusty. I think the government has to take the blame in this case, as this happens because the government refuses to invest in this area.*”

Aged household pipes. Despite the public pipe system, the aged household pipes play a significant role in the poor household water quality as well. When we were conducting fieldwork in the old areas of our studied cities, we found that most of the pipes have got rusty (Photo 4), but there is no sign that the situation can be improved because most residents cannot afford to change and rebuild their pipes. Some residents expressed their desire that the water companies can help them to deal with this problem. But they are not optimistic about this. The staff from the water firm also states, “*Our company only responsible for building the public pipes, which means the section before the pipes going in to the housing estates or buildings. The condition of the household pipes is not our business.*” We asked if the water firm has done anything to encourage the residents to improve their pipes, he just repeated his answer. It seems neither the water firms nor the governments care about the impacts of poor water quality on the residents. They are not bothered with the idea of taking a proactive attitude in promoting and encouraging the residents who are living in the old buildings to

change their old pipes, or implementing funding schemes which help the grassroots to cope with the financial burden in improving the quality of pipes, which is a standard practice in Hong Kong.

What can people do with the poor quality of their tap water? In most cases, there is nothing they can do. Many of our interviewees are frustrated about it, and say, *“There is nothing we can do, we still have to eat even if the quality is not good.”* Some families install filters at their home. Another strategy many housewives use is preparing a pot for precipitation before they use the water for cooking. It is time-consuming but at least they can reduce the potential risks on health by consuming polluted water. (photo 5)



Photo 4: The rusty pipe outside a building in Guangzhou where one of our interviewees live in. (Photo by GM)



Photo 5: The pot a housewife uses for precipitation before cooking. According to what she told us, she had just washed the pot before we visited her home, though, there is still a layer of rust/dirt which cannot be washed off. (Photo by GM)

### **Section I (b) Bottled Water and Water Vending Machines**

Ironically, the poor quality of tap water promotes the growth of bottled water and water vending machines industries in China:

*“I have always been afraid to drink the tap water, even if it’s boiled. As you know, I am quite tight with my finance, but I will still fetch the water from the vending machines downstairs. It’s partly because the quality is better than the tap water, partly because it’s cheaper than bottled*

water.”(S006)

*“Buying bottled water is mainly due to its convenience; another reason is the quality is better – at least it tastes better. The tap water is really disgusting. It smells like water from the rivers.” (G014)*

However, there are problems with these drinking water industries as well. First, bottled water and vending machine water (photos 6a & 6b) is regulated not in accordance with the Standard for Drinking Water Quality, but only regulated in accordance with the more lenient Food Regulations, which poses certain risk to people’s health. When we asked the officials from the health departments about the quality of the bottled water, he said,

*“Don’t you see that I’ve never drunk the bottled water directly? I always cook the water first. I have changed 5 times with the brands of bottled water in office so far. If I found out the brand we were drinking didn’t meet the standards when we do the randomized examination with the bottled waters, I changed it with another. There are many brands of the bottled water that do not meet the standard, it’s horrible. Some bottled water companies just put the tap water into the bottle after a simple filtering procedure; some are worse – they even do not bother to filter the water. The problems we have found out including excessive level of bacteria and precipitates.”*



Photo 6a: Water Vending Machine, located at one of the old residential areas in Guangzhou. (Photo by GM)



Photo 6b: On the side of the machine, it states “Healthy Pure Water.” (Photo by GM)

The monitoring of the quality of vending machine water is even more worrying – there is no monitoring at all! As the official goes on, “*We have never checked that kind of water. I guess there must be a problem with the bacteria indicators. By the way, I don’t think people would drink that kind of water. People are not feeling comfortable with and are not confident in drinking bottled water directly, how can they trust that kind of water?*”

The second problem associated with these drinking water industries is the costs. They are much more expensive than the tap water. At the same time, because of the unreliable quality of bottled water, buying famous brands with higher prices is almost the only way to keep the risk low, though they have no way to be ensured about this as well. This means the people from lower classes who cannot afford the alternative drinking water become a high risky group, and which contributes to the health inequality problems.

## **Section II Water Tariff**

One of the immediate impacts on the general public following the water privatization in China is increased water tariff. Before 1990s, water supply services were provided and managed as a form of social welfare, and so either cost little or were free of charge. This is also one of the major reasons for many water corporations to invest in China’s market, as they think there is a large room for increasing water tariff after privatization, and thus their profit margin. For example, the household water tariffs in Guangzhou have increased from RMB 0.35 in 1993 to RMB 1.32 per cubic metre in 2008, an increase of 380%. Wastewater treatment tariffs have been increased from RMB 0.3 in 2003 to RMB 0.7 per cubic metre in 2008 as well, and it is anticipated that it will be further increased in 2009.

One respondent illustrates her opinion about the increasing water tariffs in Quanzhou city, “*I think the water fee is expensive now. We didn’t need to pay for water before, but everything is about money nowadays. ... I feel like the water tariffs increase quite frequently, especially in recent years. I remember that when I moved to Quanzhou about 10 years ago, the water tariff was only some ten-cents.*” (Q019)

We have found that 10% of our interviewees think water bills are a burden to them, while the majority, or 66.9% of the total number of respondents, think that their water bills are quite ‘fair’ (Table 2). It looks like that majority of them are content with the current water tariff level. The apparent finding, however, is seriously unqualified if we ask the second question: Is the current

level of water tariff too high for you? The result is interesting and is contradictory with the result of the first question: There are 43.0% of the respondents think the current water tariff is too high (Table 2). In certain sense, the contradiction is not difficult to explain: precisely because the water tariff is too high, therefore many of them have already saved as much water as possible in their daily life, thus keep their water bills at minimum level, and that's why water bills have not yet become a burden to them. For instance, some families stop using washing machine because they have found that the use of washing machine costs them a lot for paying the bills for consumption of both water and electricity. Another strategy for minimizing water bills is by water reuse which is very common among our interviewees, especially those with lower income. There is one vivid phrase they use to describe the ways they use water, “*yi-shui-san-yong*” (*Chinese*, literally means “*one water, three uses*”).

<b>Table 2: Percentages showing The impacts of “Water Bills” and “Water Tariff” on People’s Income.</b>					
Do you think the water bills are a burden to you?	<b>Burden</b>	<b>10.0 %</b>	Do you think the current water tariff is reasonable?	<b>Too high</b>	<b>43.0 %</b>
	Fair	66.9 %		Reasonable	55.9 %
	Not at all	21.9 %		Too low	1.2 %
	Missing	1.2 %		Missing	0.0 %
	<b>Total</b>	<b>100 %</b>		<b>Total</b>	<b>100 %</b>

The general public anticipates that their water tariff will go on increasing in the coming years due to the inclusion of wastewater treatment fee. At the same time, the water firms and financial institutes have been promoting the idea of water tariff should be set at the level that could cover the full cost of operation; simultaneously, the central government and academics have been advocating raising water tariff to encourage people to save water.

People’s responses to the potential raising water tariffs are quite consistent. For instance, 90.4% of our interviewees disagree with the World Bank’s proposal that water tariffs can be increased to be 5% of family income. The respondents, however, think 5% is unreasonably high, with which their living standard will be significantly affected. It is also because they believe that the prices for other consumer products will be increasing as well. They are afraid that there will be nothing left after they pay all the living costs. A respondent (Q018) expresses that, “*China is still a developing*

*country, water tariffs should not become a burden.”*

Some people are discontent with the official reasons of increasing water tariffs, they think it is unreasonable because most of the water firms are quite profitable already. As some interviewees pointed out:

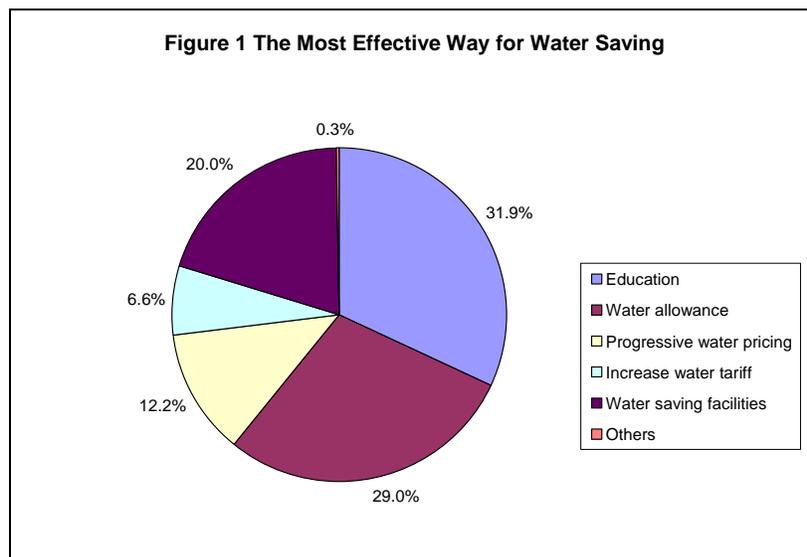
*“The water firm is making a lot of profits with the current water tariffs already. The staff of the water firms enjoys the highest salary and benefits. There are two sectors which make the most profit, one is water, another is electricity, they are the richest. Because they are monopolistic industries, there is no one competes with them. And water is something that we must use for our survival.”* (G047)

In the discourse of encouraging water saving by raising water tariff, the supporters assume that raising water tariff will bring in three benefits: 1. reduce the demand of water; 2. effective redistribution of water resources; and 3. serves as an incentive to reduce water leakage rate and thus increase water provision volume (Fu, Chang and Zhong, 2006, p193). This sounds as a legitimized reason to increase water tariff, especially in the context of water shortage in China. However, this is only an excuse for the interested parties to increase water tariffs and it is an unfair approach in relation to the people with lower income. **First**, the problems of water-waste, such as tap leakages, are more common in factories, public departments and dormitories. In 2006, the Vice-director of the Ministry of Construction, Mr. Chou, indicated that due to the aged pipes, China’s urban water leakages rate was as high as 20%. If China can reduce the rate to the international standard, which is 7-9%, the volume of water being saved will be equal to the water volume involved in the South-North Water Transfer Project per year (ChinaReviewNews.com; 2006-08-23). Therefore, compared with all the water wasted in these ways, household leakage is not the major cause of water-waste. On the contrary, as we have revealed before, most of our interviewees have contributed a lot to water saving by water reuse.

**Second**, according to our research result, most people responded that raising water tariff will not affect their water consumption as the volume of water they consume now is very basic to their living. As one respondent describes, *“I don’t think we have wasted water in our daily life, all we have used is very basic, such as cooking and washing. We will still need to consume the same volume of water even if the price is raised. I cannot see where else we can save more.”* **Third**, the impacts of increasing water tariffs on grassroots will be substantial and unfair. The grassroots are the group that saves the most water resources, but with the water tariffs increase, they are the ones suffer the most because it takes away an unproportionally high amount of their income. As one

migrant worker in Quanzhou indicates, “Water tariff is going to increase, the prices of food items are increasing as well; but how come our salary is not increased accordingly? How can we live on?”

If water tariffs increase is not an effective way for water saving, then what would be the best way to save water and protect our resources? In the opinions of our interviewees, “education” is the most effective tool for water saving (31.9%), and followed by “water allowance ” (29.0%). Only 6.6% of the interviewees agreed that “increase water tariff” is the most effective tool (Figure 1).



### **Section III Management and Quality of Services**

#### **The positive changes with the water supply**

Although the twenty years of reform of China’s urban water supply has brought about negative effects on the people, nevertheless there are some positive improvements as well. The most obvious improvement is the more guaranteed water provision. The age-old problem of frequent suspension of water supply without prior notice is now largely solved. According to our interviewees, even when the water supply is suspended occasionally, they will be informed beforehand. As one respondent says, “Of course you should not expect too much as well. But I think the water firm has been improved regarding providing information to us about suspension of water supply. You know, in the old days, no body would inform you about the suspension. You could only find out when there was no water flowing down when you turned on the tap. But now they will tell us the reasons

of suspension and for how long.”

Another input by the water firms is the installation of household metres. Although there are still some households in the older areas do not have their own metres, this work is ongoing. The household metre coverage rate has been improved to about 80% in 2008 in Quanzhou city. Before this, there was usually only one metre for one building. Residents shared the whole sum of bills according to their own agreements. The sum often included the water used in public areas or those wasted through leakage, thus occasionally the residents had to pay quite a large sum for the water consumed. This is unfair. Now with the introduction of household metres, it solves these problems. An older lady from Guangzhou says that, “*Oh, I think the installation of household metres is really a good thing for us. It solves a lot of disputes we had before. And also saves quite a substantial amount of money.*”

Overall, we record a percentage of 31.2 of respondents who agree that the services provided by the water firms have been improved.

### **Problems associated with the services of the water firms**

*GM: Do you think there is any problem regarding the services of the water companies?*

*G007: Too many problems. Needless to comment on the water tariff. It's much too high. We have tried very hard in saving water already, but still have to pay at least ¥30 each month. The metre is unreliable too and no body takes care of it when there's problem. There was once that I had to pay a ¥500 water bill for one month.*

*GM: What? How come the water bill was that high?*

*G007: There was some problem with our pipes. We had called the water company for repair, but nobody showed up. So water kept running out from the pipes to outside. According to the metre readings, we had to pay ¥500 for the water tariff.*

*GM: Did you explain to the water company? Or asked help from some kind of mass media?*

*G007: There's no point for explanation. I did explain to them, but they won't listen to you. They insisted that I had to pay according to the metre readings. There was nothing I can do, except paid the bill, otherwise they would cut off our water supply. I could only blame my bad luck. No one will listen to people like us even if I sought help from the mass media.*

Apart from the poor water quality and high water tariffs which we have detailed description before, we have identified other 5 major complaints people made about the management and services

provided by the water firms. The first one is, “**No service at all**”. Some interviewees said, “I do not see any service they have provided to us.” One respondent shares her experience, “the only service they provided is recording the metre readings, but sometimes they didn’t come to record it but just give an estimation and sent us the bill.” Some refused to comment about the service quality of the water firms because they “never interacted with the water firms.” Some complained that the water firms are **bureaucratic**, which is showed by low efficiency. The example we presented above is one of the examples that demonstrate the water firms ignore or delay their duties and responsibilities. Other criticism including **poor attitudes** of the staff, and **unfairness**, which is because some staff of water firms can enjoy free water by building free pipes through *guanxi* (Chinese, literally means ‘relationship’).

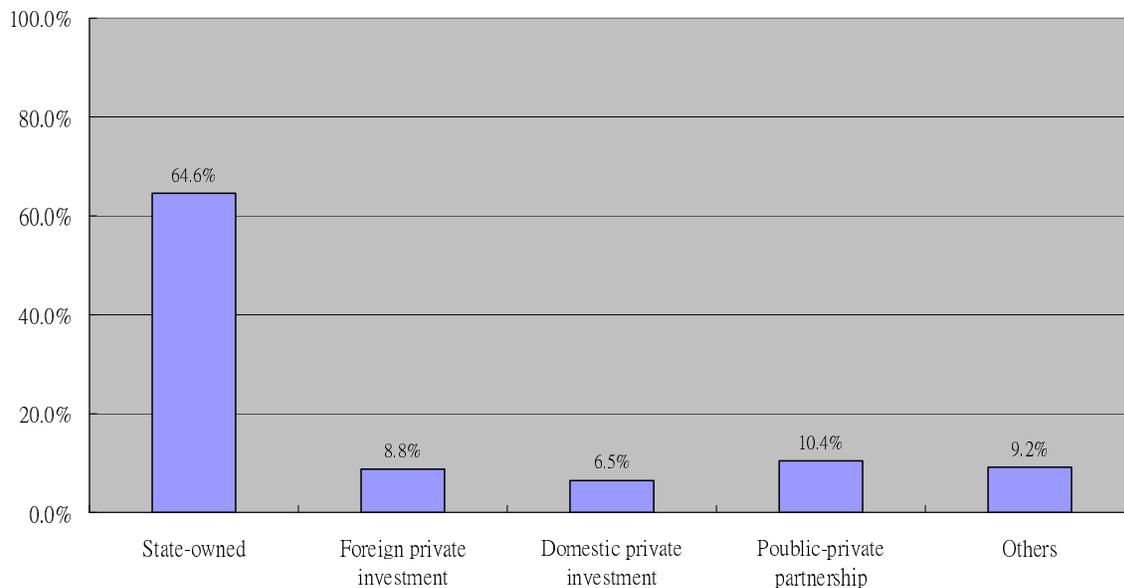
The last, but not the least, problem is the **abuse of power**. It refers to both the staff and the water firm as a whole. Although the installation of household metres is a nation-wide police, we find that the charges for the installation vary a lot. It is free of charge in Guangzhou, but costs quite a lot in Quanzhou, Fujian province. The charges in the town-level or below are even higher. A respondent tries to explain this phenomenon, “*I think there should be some regulations about the pricing, but places like here usually do some adjustments by itself. Maybe because the water company knows that the income of the local people here is quite handsome, so it charges us additional fees.*” The second example is related to the staff of water companies. When we asked a family in Fujian if their household pipes have been improved in the past years, they reply, “*Improved? Of course they have been improved! The staff comes to us every two or three years and told us that they were going to ‘improve’ our pipes for us. The pipes of our building have been changed 3 times in 10 years. And of course we have to pay for it and that’s exactly what they want actually.*” According to our information, such services are not assigned by the water companies, but whenever the staff wanted to earn some extra income, they would actively visit the residents and ask them to change their pipes or metres. We do not know if this happens elsewhere. What we have observed is that this tends to happen in the cities or towns with lower economic development.

Regarding the poor quality of the services provided by the water companies, many interviewees think that this is mainly due to the fact that the water sector is a monopolistic industry. The staff from the water companies whom we interviewed thinks it this way as well. When we asked if he thinks there is any improvement with the management of his company after the reform, he responds, “*There is a change in the form but not in the content. Substantially speaking, nothing has been changed. Our company is a public entity and monopolistic in nature. The management is not very strict because there is no competition.*” Initially, one of reasons for introducing commercialization

and privatization to the water sector is to check the monopoly there, but at the end of the day, it seems that the reform has not accomplished its goal.

The poor management and quality of services provided by the water firms is the major reason for those who support private sector involvement. As one respondent (S006) says, *“The services provided by foreign private companies are usually with a better quality. Their management is more systematic as well. You can see that there is a high standard with their products and they are often quite reliable.”* Our data reveals that 38.1% of the interviewees agree with private sector involvement, which is slightly higher than those who disagree (33.1%). However, while many people complain that there are many problems involved with the management of the SOEs and other government departments, especially with low efficiency and bad attitudes; when they were asked about which is the most appropriate system to run the water supply, 64.6% of the interviewees choose “State-owned” (Figure 2). Therefore, we can anticipate that if the management of the SOEs can be improved, the percentage of supporting State-run water entities will be even higher.

**Figure 2 The Most Appropriate System for Running Water Supply Sector**



## **Section IV Problems associated with the Water Governance System**

### **1. Ambiguous Division of Administrative Power and Responsibility**

There are many bureaus and departments involved in urban water supplies and water reform, such as Ministry of Construction, Ministry of Water Resources, Public Utilities Bureau, Municipal Works and Gardens Administration Bureau, Water Supplies Department, Pricing Bureau. However, there is no clear definition of their respective responsibilities and authorities. It results in disorganized management and inefficiency, thus affecting the quality of water supply, as well as a waste of resources. Another vital effect of the ambiguous division of power and responsibilities is unclear administrative accountability. Therefore, it is common that every department tries to run away from responsibilities when something happened.

### **2. Transparency and Public Participation**

The reform of water supply is a long-term process and involves many stakeholders and procedures. However, most of our interviewees do not have a clue about what water privatization or marketization is, and express that they've never heard of this, though the general public supposed to be the largest stakeholder when it comes to water supply. We do not find any information that the government consults the public regarding water supply reform, as well as providing information related to the development of water supply. Therefore, when we ask our interviewees if they know the ownership of their water companies, almost all of them respond, "I think it should be state-owned" or "I don't know". When there is information provided to the public, it is usually a one-way information announcement about increased water tariffs or suspension of water supply. There is no channel for the public to provide feedback, as one respondent says angrily,

*"There is no way for us to give any opinion. No, there is not. Even if we are able to give opinion, the water company or government won't listen to and take it into account. Otherwise, people would not have said that they wanted to sue the water company. Why did they want to sue it? The water tariffs were increased frequently and arbitrarily. There is no rule at all. The company charged you four or five hundred dollars just for installing a metre... But there's nothing you can do, if you complain about it, they (the staff) would say, 'Okay, forget it. We'll just cut off your water supply!' They all behave in this way. Really! Their attitudes are really bad. That's why we often address them as 'Water-tiger' or 'Electricity-tiger'." (Q002)*

There are supposed to be public hearings before the water companies re-set the water tariffs. This is probably the only official channel people to express their opinions in the public, although most of

our interviewees do not know about it as well. Besides, we doubt about the usefulness of the hearings, as most of the people presented in the hearings are invited by the government or water firms, and only leaves few seats for the general public. As one respondent says, *“I was in one Hearing before. There were twenty-something people altogether, but there was only one representative from consumers, which is me.”* It seems the real function of the public hearings is just to make the increased tariffs acceptable, instead of giving an opportunity for the public to participate in decision making or consultation.

### **3. Lack of Monitoring Mechanism and Legislation**

The problems found with water supply are mainly due to the lack of monitor mechanism in China, together with a weak legal basis. As Zhong and colleagues describe, “... the legal basis under privatization developed quite slow and is still underdeveloped in China.” They also point out, “Different from some water privatization forerunner countries (e.g. England and Wales, Philippines), which enacted specific laws before entering into privatization, the marketization reform and private participation in the Chinese water sector is conducted under various governmental policy papers, but without specialized legislation” (2008).

The existing loopholes can be explained by the following factors:

- The government tends to pay attention to the injection of capitals and infrastructure projects, but neglects the importance of monitoring water firms’ services and operating procedures in the process of urban water reform.
- The governments do not realize that they have changed their role from service supplier to service regulator and observer after water privatization. Hence, it is a common phenomenon that local governments withdraw themselves from public utilities once the water supply has been privatized, without establishing a proper monitoring system to ensure water corporations run the water services in a proper way.
- In most of the cities, the monitoring duties are carried out by the department under the Ministry of Construction, while the Ministry of Construction is also the one who promotes the reform and promulgates related regulations. Therefore, there is not an independent department responsible for the monitoring systems in China.
- The local governments do not enforce the regulations and policies seriously, because officials put cultivating personal relationship with the purpose of bringing benefits for them before the enforcement of laws.
- China’s monitoring system is not well-established because it does not involve the public.

Our study finds that the general public places ‘monitoring’ as the best way to improve services. They believe water supply services can be improved if the governments reinforce their roles in monitoring the water firms. At the same time, they also think that the role of monitoring by the general public will be more effective than the governments (46.9% vs 38.5%). Besides, more than half of our interviewees (57.3%) express their willingness to monitor the water supply services if such opportunity is available.

## **Conclusion**

It seems that the people are interested to be empowered to have a direct stake in the running of water supply. However the current reform has done nothing to empower the people. Rather, the reform first and foremost empowered the officials and the private companies in reaping more benefits or profits for them. There seems to be some improvements of water supply in certain aspects which we do not deny, yet they are small in comparison to the problems which the reform brings about. We understand that it is not yet the time for a full evaluation of the reform. One of the reasons is, however, that there is simply little transparency about the great transformation in the water sector. There are lots of official propaganda concerning the water reform, but as propaganda they are of little value in bringing the whole truth to the people. Our purpose here is to initiate a preliminary study to the issue, and last but not least, allow the voices from the people to be heard. Under the censorship their voices simply do not have a proper channel to get heard in China. We hope that with this study we can provoke some debate among the public about the consequences of the reform in water supply and its future. Only with open and honest debate could we make our valuable asset, namely fresh water, in the service of the people without, at the same time, endangering its sustainability.

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## **Work of Globalization Monitor**

### **Our Work**

Globalization Monitor is a non-profit organization based in Hong Kong. It was founded shortly before the big Seattle protest against the WTO in 1999. Its board members are activists from trade unions, the green movement, regional groups, and women groups and grassroots organizations. It has been the chief organization in HK to dedicate itself to promoting awareness of the negative effects of globalization.

### **Mission:**

1. Promote public awareness of the adverse effects of globalization, neo-liberalism and corporate monopolies;
2. Lobby for legislation that will restrain the behavior of corporations and protect the rights of workers, women, consumers, marginal groups and the environment;
3. Promote an autonomous social movement in the fight for political and economic democracy and the just distribution of social resources.

### **1. Publications**

In the past five years, GM has put out 18 issues of its journal, also called Globalization Monitor. These issues subjected 'free trade ', privatization, liberalization of capital flow and other bedrocks of neo liberal policies to critical analysis and have been a valuable resource tool for the HK social movement.

### **2. Public Education**

We have given numerous talks and held many workshops among college students and grassroots organizations. In 2000, we worked with the Hong Kong Confederation of Trade Unions on a year-long educational project on globalization among union members.

### **3. Campaigning**

In 2001, we initiated a coalition of more than 20 local groups and launched a campaign against the World Economic Forum and its conference in HK.

In 2004, Globalization Monitor, along with local trade unions and NGOs, founded the Hong Kong People's Alliance on the WTO to (HKPA) to prepare for the campaign against the Sixth Ministerial Meeting of the WTO in December 2005.

### **4. Solidarity with Chinese Labor Actions**

In the middle of 2004, news emerged that the Gold Peak Group, a Hong Kong based Asian TNC

with several battery-making factories in Huizhou, China, had poisoned several hundred workers with the chemical cadmium, used in the production process. Workers reacted with strikes. With the support of local trade unions and NGOs GM has organised an ongoing solidarity campaign in HK supporting the workers' demands for fair compensation. In August 2005, the GP group announced the founding of a HK\$10 million medical fund for the victims. As the amount is far from sufficient to cover the required lifetime medical costs, the workers have not called off their struggle for justice and GM is continuing its work to support them.

### **Monitoring China**

China has fully integrated into the global market and transformed itself into a powerful exporting machine. However, the comparative advantages of Chinese products rest on the high level of exploitation of both working people and the environment. Workers and farmers are denied the basic political freedoms. Rural migrant workers are further denied full freedom of residence and of movement in the cities. Lacking the basic tools for self-defense, workers have to endure extremely low wages and high intensity of work.

China's membership of the WTO is also beginning to have a negative impact on farmers and the poor. State-owned enterprise (SOE) restructuring has also deepened with WTO membership and over 40 million workers who worked in the public and state sector have been laid off since the mid-90s through various forms of privatization schemes to increase 'efficiency'.

The gross exploitation of Chinese workers and our environment should be a concern not only to the Chinese working people but also of global civil society. China has become a major player in the race to the bottom for working people, not only among Asian countries but also across the world. Globalization Monitor is keen to cooperate with other organizations in monitoring the impact of globalization on working people in China and promote alternatives to profit-centered development in China and everywhere.

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