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UPHEAVAL IN CHINA; Shanghai Protesters: A Finger on the Switch of China's Industrial Dynamo

By RICHARD BERNSTEIN and SPECIAL TO THE NEW YORK TIMES MAY 27, 1989

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In a testament to China's economic liberalization, the streets of this city are clogged with merchants of all sorts - young men displaying gold necklaces or earrings, elderly women selling five-flavored tea-soaked eggs.

But every once in a while trading stops as a long line of students, marching only three abreast to limit their interference with already heavy traffic, abruptly appears on its way to the waterfront or People's Square, the main rallying points for the pro-democracy demonstrations that have become a daily event here.

When the marchers have passed, commerce picks up again.

"Some of the party leaders are arguing that the people are getting tired of the traffic tie-ups and the constant marches," a foreigner here said. "In fact, the protest is basically extremely popular, and, if things go wrong, there would be a chance of heavy strikes."

It is a prospect that China's leaders fear as they try to quell the national wave of unrest. **Strike Could Be Crippling**

Other cities in China have daily protest marches of students, cheered on by workers and other citizens. But with more than 11 million people, Shanghai is China's largest city and the country's industrial core. It is also the heart of a region

that has ambitious plans to attract huge sums in foreign investments. That combination has long made the country's central authorities nervous about any unrest here.

A strike in Shanghai, a foreigner here said, would be a calamity for China's entire modernization drive and would throw the economy into turmoil.

The concern that workers here might react strongly if there were a violent military crackdown on students is one reason cited for the authorities' apparent reluctance to call in troops to clear pro-democracy demonstrators from the center of Beijing.

"If blood is spilled in Beijing," a textile worker said today, "the workers in Shanghai would mount a general strike."

But it is difficult to know exactly what workers would do if there were a violent crackdown in Beijing. A History of Labor Unrest

Shanghai has a long pre-Communist history of fierce labor disturbances. It was in this city that the fledgling Communist Party made its first attempt at a conventional revolution by organizing large general strikes of unionized workers. The failure of the Shanghai uprising of 1927 led the party to base the revolution on the peasants, rather than on the workers.

A similar failure might be in store if a general strike were called in 1989. Though the industrial working class -referred to in China's newspapers as the "broad laboring masses" - is large, it is not organized.

Moreover, some workers in Shanghai say, special efforts have been made lately to keep them at their jobs. In some factories, workers have been warned that if they take time off to demonstrate they will be docked a day's pay, and if they show up for work every day they will get year-end bonuses.

Still, the Shanghai region has clearly been caught up in the wave of protests sweeping the country. Demonstrations have continued in nearby cities -Wuxi, Yangzhou, Nanjing and others -and have been a daily event here since the beginning of this month. Along the docks on the Huangpu River there is a daily gathering of residents young and old, students and others, many of them massing under the trees in front of the local branch of the Communist Party, a weatherbeaten building of cut stone overlooking the harbor. Banners of Protest

The area is hung with slogans brushed in black on long strips of white paper. "The situation is intolerable," read one. "The people's army loves the people," said another. A third was, "Don't be afraid of a crackdown."

There are also daily rallies at the entrance to the small lane that leads to the offices of the World Economic Herald, a bold newspaper shut down last month. Today a banner was strung across the lane proclaiming: "Comrades, the Economic Herald and the people will always be together."

But the main center of protest is People's Square, a vast asphalt esplanade where the racetrack was during the days when that part of the city was the British concession. There, every afternoon, threading their way through the city's congested shopping streets, come bands of students carrying pennants and banners and demanding, among other things, the resignation of Prime Minister Li Peng.

On the fringe of the demonstrations are the ubiquitous traders, hawkers banging the sides of insulated boxes containing frozen desserts.

Shanghai is no longer virtually the only heavily industrialized city in China. But it still accounts for some 10 percent of the country's gross national product and, more important, has been among its most successful regions in moving into modern industry by attracting high-tech foreign investment. Heavy Western Investment

Xerox makes desktop computers here; McDonnell Douglas assembles airplanes. Squibb pharmaceuticals exports medicine from Shanghai to the United States; Carrier produces air-conditioners here.

The local hope is that some \$20 billion in investments will have come in by the end of this century. But many here say a harsh crackdown on protests might discourage investors interested in Shanghai. In the worst case, a chain reaction of unrest could bring about the general strike that some workers say is possible.

"We have three grievances," said a man standing on the edge of a demonstration today by students from the merchant seamen's academy, one of roughly 40 schools and institutes in Shanghai that have been organized for protests. "One is rising prices. The second is corruption among Government officials. The third is the lack of democracy."

But when pressed on whether the workers were ready to risk their livelihoods for the sake of political liberalization, the response was cautious.

"The difference between us and the students is that we have family responsibilities," the textile worker said. "Students don't have to worry about making a living."

