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World economy

The rising power of the Chinese worker

In China's factories, pay and protest are on the rise. That is good for China, and for the world economy

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CHEAP labour has built China's economic miracle. Its manufacturing workers toil for a small fraction of the cost of their American or German competitors. At the bottom of the heap, a "floating population" of about 130m migrants work in China's boomtowns, taking home 1,348 yuan a month on average last year. That is a mere \$197, little more than one-twentieth of the average monthly wage in America. But it is 17% more than the year before. As China's economy has bounced back, wages have followed suit. On the coasts, where its exporting factories are clustered, bosses are short of workers, and workers short of patience. A spate of strikes has thrown a spanner into the workshop of the world.

The hands of China's workers have been strengthened by a new labour law, introduced in 2008, and by the more fundamental laws of demand and supply (see [article](#)). Workers are becoming harder to find and to keep. The country's villages still contain perhaps 70m potential migrants. Other rural folk might be willing to work closer to home in the growing number of factories moving inland. But the supply of strong backs and nimble fingers is not infinite, even in China. The number of 15- to 29-year-olds will fall sharply from next year. And although their wages are increasing, their aspirations are rising even faster. They seem less willing to "eat bitterness", as the Chinese put it, without complaint.

Why the goons were called off

In truth, Chinese workers were never as docile as the popular caricature suggested. But the recent strikes have been unusual in their frequency (Guangdong province on China's south coast suffered at least 36 strikes in the space of 48 days), their longevity and their targets: foreign multinationals.

China's ruling Communist Party has swiftly quashed previous bouts of labour unrest. This one drew a more relaxed reaction. Goons from the government-controlled trade union roughed up

some Honda strikers, but they were quickly called off. The strikes were widely, if briefly, covered in the state-supervised press. And the ringleaders have not so far heard any midnight knocks at the door.

This suggests three things. First, China is reluctant to get heavy-handed with workers in big-brand firms that attract global media attention. But, second, China is becoming more relaxed about spooking foreign investors. Indeed, if workers are upset, better that they blame foreign bosses than local ones. In the wake of the financial crisis, the party has concluded, correctly, that foreign investors need China more than it needs them. Third, and most important, the government may believe that the new bolshiness of its workers is in keeping with its professed aim of "rebalancing" the economy. And it would be right. China's economy relies too much on investment and too little on consumer spending. That is mostly because workers get such a small slice of the national cake: 53% in 2007, down from 61% in 1990 (and compared with about two-thirds in America). Letting wages rise at the expense of profits would allow workers to enjoy more of the fruits of their labour.

Higher Chinese wages would also be good for the West. This may seem odd, given how much the rich world has come to rely on cheap Chinese labour: by one estimate, trade with China has added \$1,000 a year to the pockets of every American household, thanks to cheaper goods in the country's stores, cheaper inputs for its businesses and stiffer competition in its markets. Just as expanding the global labour force by a quarter through the addition of cheap Chinese workers helped to keep prices down in the West, so higher Chinese wages might start to export inflation. Furthermore, from the point of view of the global economy, labour is a resource, like land or oil. It would not normally benefit from the dwindling of China's reserves of labour any more than from the drying up of Saudi wells.

Tomorrow's global consumers

But in the wake of the financial crisis, things are different. Deflation is now a bigger threat than inflation. And with 47m workers unemployed in the OECD alone, labour is not holding back the global economy. What the world lacks is willing customers, not willing workers. Higher Chinese wages will have a similar effect to the stronger exchange rate that America has been calling for, shrinking China's trade surplus and boosting its spending. This will help foreign companies and the workers they have idled. A 20% rise in Chinese consumption might well lead to an extra \$25 billion of American exports. That could create over 200,000 American jobs.

Eventually, this extra spending will help the world economy return to full employment. At that point, foreign companies and consumers may miss China's cheap coastal workers, who kept profits high and prices low. But there will still be cheap labour to be found inland and in places like India. And Chinese wages were anyway only half the story. The other half was Chinese productivity. Chinese labour costs tripled in the decade after 1995, but output per worker quintupled.

To repeat that feat, as it runs dry of crude labour, China will have to increase its supply of skilled workers. That will require a stable workforce, which stays with its employers long enough to be worth investing in. For that the government will need to relax further its system of internal passports, or *hukou*, which prevent migrant workers from settling formally in the city without losing their family plot back home. When labour was abundant, it suited the government to have a floating population that made few demands on urban authorities and drifted back to the family farm whenever hardship beckoned. But to maintain fast growth as the labour market tightens, China's floating population will have to drop anchor.

As the late Joan Robinson, a Cambridge economist, once wrote, “the misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all”. Her quip, written in 1962, was inspired by underemployment in South-East Asia. Since then, capital has busily “exploited” workers in that region and its giant northern neighbour, much to their benefit. Now it is time for capital to invest in them.

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