China’s Cheap Labour Capitalism and its Reality – A Detailed Analysis on the Purchasing Power Parity & Welfare of Workers in Communist China

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ABSTRACT
The Article “China’s Cheap Labour Capitalism and its Reality – A Detailed Analysis on the Purchasing Power Parity & Welfare of workers in Communist China”, is a detailed analysis of socio-economic system in China and the impact of communist party operating on crony capitalism from the perspective of the labour force of China. The article covers a detailed analysis of economic aspects of Purchasing power parity and currency devaluation in China. The plight of common worker with low wages and "stay-at home children" are studied in detail and have identified the economic and social policies implemented by the state to keep the workers from aspiring to a higher tier of economic hierarchy by means of strict control measures and state controlled Trade & Labour Unions. Relevant references and studies have been cited in arriving at the inference.

Long since the establishment of Silk route has it been debated on the extensive potential of wealth and resources that China possess, which often led many historians to believe a new world order dominated by China would come into existence (Chan G, 2012). It is often believed that China as a communist state, advocates for better equality of opportunity and upholds labourers and workers interests at its best. Now that China is set to surpass the United States and become the world leader in overall GDP, does China really hold the key to being a world super power in terms of overall living quality, peace and prosperity that the current world super powers look forward to bestow upon their citizens?

KEYWORDS: Bureaucratic Capitalism, Communism, Workers Welfare, Globalism, Workers rights, Purchasing Power Parity, Currency Devaluation, Industrial revolution, Class Antagonism

Growth of Foreign Trade in China
During early 1950s and 1960s the Chinese foreign traded only constituted of about two percent or less of the Gross National Product or GNP. From 1970s foreign trade started to grow although it reached only to 6 percent of GNP by 1979. The year 1979 saw US establishing improved trade relations with China. In the late 1970s China had already started to reverse the Maoist economic development strategy by making commitment to open up the market for free trade with the outside world. The trade grew from USD 27.7 Billion to USD 70.8 Billion in 1985. However taking a look at year 1979 when US first established bilateral trade relations with China it is important to note that private companies in US saw China as a huge market to explore and capitalise. Despite having a communist regime in China the sheer size of the Chinese market prompted many American corporates to create long term goals and plan for Chinese market. The years that followed saw more and more liberal measures and deregulation from Chinese administration which eventually led to a considerably large foreign investment in the course of years that followed. New machinery and investment was the first step that boosted production and exports from China, eventually it led to technology transfers and establishment of large regional production hubs for major corporations. The corporations found benefit in transferring the factories and assembling plants from the west to China as it considerably reduced cost of production and boosted profit since the new products manufactured in China replaced the same products which were earlier manufactured in the west, thereby making the product more competitive in terms of pricing. What followed eventually was a mass outflow of manufacturing from the west to the east. Since the western economies still required manufactured goods, the imports from China rose steadily year after year, thus China accelerated its foreign trade from 2% or less exports in terms of GDP in 1980 to 24% of its GDP as exports in 2010.

Capitalism inside China & Its growth with foreign trade
Along with the expansion of foreign trade, the Chinese billionaire’s early on converted political ties to secure lucrative public enterprises, land, export subsidies, loans, import and export licenses, which resulted the rapid accumulation of wealth with a small percentage of the population, primarily the rich. (Petras, James 2008), The Presidential term of Ziang Zemin from 1993 to 2003 along with the support of Prime Minister Zhu Rongji saw Chinese millionaires securing millions in assets under the new Neo-liberal policies of Chinese government. Under President Hu Jintao and Prime Minister Wen Jiabo of Communist China


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2003 there was a huge spike in rise of number of billionaires in China, all while the communist party ironically advocating for social safety nets and lessening inequalities. Deng Xiaoping was the most prominent political figure in the communist party who spearheaded the movement of driving the party from what was left of communist ideologies to a party that supports liberalization, privatization and deregulation (Baum, Richard 1994). Deng’s ideology of growth of productive forces at all costs legitimized the conversion of Chinese Communist Party into a large scale bribe-taking machine, displacing urban housing of workers and rural villages to make way for real estate speculators and construction companies which created the wealth for 50 percent of China’s Billionaires thus transforming the Chinese capitalist elite as a mixture of Kleptocrats and entrepreneurs (Petras, James 2008). It is a well-known fact that all Chinese Billionaires are members of the Chinese communist party, a position they are forced to take to maintain their wealth and connections within the ruling administration. Ironically the Chinese communist party is now the richest political party in the world if we were to measure the wealth of its members. The whole process of injecting bureaucratic capitalism into a fast growing communist economy boosted by foreign trade has led to the death of communist or socialist ideologies and has created an administration that strictly controls and supports the welfare of the rich elite capitalists who drive the industrial and real estate entities or corporations all at the stake of better welfare and living for the common workers. With the scraping up of socialist housing programmes for workers, the labour force of china has to stay occupied in the wheels of production under the harsh rules, restrictions and limited freedom imposed by the government that they are deprived of any room for organising, protesting or brainstorming for an escape plan out of the cycle of low paid employment that barely keeps them going. Self-made millionaires like Jack Ma are “once in a blue moon” examples of how tough it is for the lower classes of the hierarchy to break the barriers imposed by society and government to break free and evolve to the next level of economic hierarchy. It also indicates how strictly the government monitors its millionaires and working class alike that there is no room for criticism on the government or current socio-economic system spearheaded by the government.

Cheap Labour as a catalyst for American Outsourcing & Increased Profits

The foreign trade & domestic production grew quickly and with each year as American Capitalist Private Enterprise started outsourcing or moving production to the East, primarily China. The attraction for American corporates to start manufacturing in China was the very low labour cost in China, followed by strict US tax environments and rules in USA regarding employee work hours, benefits & wages. The Capitalist Elites thus found a new way to bypass paying a rightfully owed share also known as the surplus of its revenue with the work force by simply replacing them with a cheaper work force which will not demand for the same rights, privileges and wages as the western worker. Although communism advocated for equality and genuine equality means not treating everyone the same, but equally attending the different needs of everyone (Terry Eagleton, 2011), it was not what became of the workforce in China. Since the start of economic reforms in 1978, China has experienced the largest increase in income inequality of all countries for which comparable data are available. (DT Yang 1999) This fundamentally made a transition from in-house production to outsourced production in most of the Fortune 500 corporations for increased profits, decreased labour costs and improved competition.

It is important to note that in the West especially in the United States of America health insurance was also a benefit enjoyed by the employees since the establishment of better working conditions and unions. Employer-sponsored health insurance is paid for by businesses on behalf of their employees as part of an employee benefit package. Most private (non-government) health coverage in the US is employment-based. Nearly all large employers in America offer group health insurance to their employees (hhs.gov, archives). However it was only by 2006 that similar health care reforms were passed in China although it covered only basic medical expenses, with the employee-worker still footing the bill out of his pocket for any non-basic coverage. Similarly while traditional American working hours are from 9AM to 5PM, Chinese working hours range from 8AM to 6PM. All the minor details add up to the differences in how labourers are treated in both the countries, and how treating the labourers in the west is more expensive but ethical and fair.

Treatment of Rural Labourers in Urban China

Peasant workers were better treated and well represented in the socialist period and the pre-war era of China. Whereas the first generation of migrant workers, that is people born in late 1960s and late 1970s who started working in Chinese industrial zones in 1980s and 1990s and the second generation of migrant workers born in late 1970s and 1980s and entered the workforce in late 1990s and 2000s have a different experience to share. The first and second generation of workers went through a period of high rate of job turnover, increased proclivity to individualism and consumer culture in which the workers had no loyalty to their employers and were spiritually bewildered despite possessing a cosmopolitan look (Ngai, P 2010). The rapid economic growth in the reform era has led to formation of a social structure in which the second generation has met with a rural-urban chasm, less equality of opportunity, greater income inequality and further social exclusion despite some improvement in their working conditions (Park, Wang and Cai, 2006). Thus the migrant workers from rural areas were treated like second class citizens by the society as well as the provincial governments. They did not enjoy the same rights and privileges as other classes of society. This divide has given rise to anger, frustration, and resentment conducive to the evolution of the workers’ awareness, response and their shared class position (Ngai, P 2010). The local urban governments have had no incentive to meet the needs of collective consumption for the labourers in terms of housing, education, medical care, and other social goods and services. Rural migrant workers have been barred de jure, but not de facto, from living in urban centres by the hukou (Chinese Household Registration System) system and by class barriers that have ensured that migrant workers with measre wages are unable to settle down in urban communities (Solinger, 1999). Not only discriminated and segregated by their own government, the workers are unable often to afford living on their own in the cities they work in. Thus a rural worker or he and his family is confined to live in the rural area where he comes from and that the wages he earn will not be sufficient to educate his next generation to a hierarchy much above him, as best schools
and education would come at a higher cost than the government educational system in rural areas. The workers and their upcoming generation are devoid of any equality to opportunity, thus the son of a manufacturing labourer would have higher probability to be a worker of similar class than aspire to be a rich & successful entrepreneur or occupy a higher tier in the hierarchy. The class antagonism is more clearly visible in China than anywhere else in the world.

The 2018 UNICEF annual report highlighted there are approximately 69 million left behind by their parents in rural areas, they are often termed stay-at-home children, who would probably be raised by distant relatives under the education and infrastructure of rural areas. (John Sudworth, 2016). China’s Hukou system hampers left-behind children’s chances of public school enrolment in cities. In some cities where a school enrolment point system are implemented, educational resources in urban areas are not readily accessible to migrants and left-behind children. As a result of the lack of educational resources, many migrant parents left their children at home (Mu, Guanglun Michael, 2016). These Children who grow up without their parents would have a higher probability to not succeed in equal proportions as their urban counterparts who are raised under parental guidance, the result is not only an emotional disconnect from the society but this would seriously hamper their academic excellence as they now have to strive much harder without enough guidance compared to rich or middle class students from urban families. These impact of this practice on children are intersectionality, mental health issues and physical health issues, lack of interest for education, social relationship issues, safety and cell phone addiction. These hurdles create a higher chance that majority these children would end up as basic labourers just like their migrant parents in urban areas. Frustrations and resentment among the working class can be seen in the collective actions and strikes under taken by male and female workers in 2010 at Pearl River Delta, which is an economic zone in South China.

Purchasing Power Parity vs Nominal GDP as an indicator of welfare

When the American corporations thrived with increased profits from 1970s to 2017, so did the domestic industry in China. (W M Morrison, 2011) Now there are equally powerful and strong domestic corporations from China that can compete against the western counterparts. However since China still acts as a world hub for cheap labour despite its GDP rising steadily over years, it is very significant to understand that the Chinese economy functions different from other world economies. This brings us to a study of Nominal GDP and PPP GDP (Purchasing Power Parity) of China to better understand how despite being a world superpower second to only United States, how living conditions and wages of average manufacturing worker in China is well below western standards. Purchasing power parity is an economic term used for measuring prices at different locations based on “the law of one price”, which says that if there is no transaction costs nor trade barriers for a particular good, then the price for that good should be the same at every location (Krugman, 2009). PPP is thus the best tool available in comparing living standards between two nations. Unlike Nominal GDP, PPP GDP takes into account the difference in purchasing power of the citizens in a given country against that of United States for same goods and commodities at the same volume by keeping US dollar as a standard currency of measure. It has been studied that GDP comparisons using PPP are actually more beneficial than the GDP comparisons using nominal GDP when assessing a nation’s domestic market because PPP takes into account the relative cost of local goods, services and inflation rates of the country, instead of using international market exchange rates, which may distort the actual differences in per capita income (World Bank.org, 2017).

The ratio of PPP GDP to Nominal GDP is often taken as a measure of how far or how close the standard of living of a country is in comparison to that of another. The higher the value the worse the standards, for example in the year 2019, Sudan had the highest value of PPP GDP to Nominal GDP as 5.70, whereas Switzerland had the lowest with 0.79. Hence a careful study of the graph plotted with PPP GDP curve and Nominal GDP curve against each year can give a good indication of how the living standards are going to improve or deteriorate. If we see a convergent curve, that is, if PPP GDP curve shows signs of intersecting with nominal GDP curve then it would indicate that the welfare and living standards would increase in near future. If the PPP GDP curve and Nominal appear parallel it mean there won’t be any significant change in the economy. If the PPP GDP curve is divergent in nature while comparing with Nominal GDP curve then it would indicate a deteriorating standard of living, higher inflation and falling exchange rates in near future. This analysis holds complete validity in case of democratic nations compared to autocratic, dictatorship or monarchy. PPP GDP is a precise indicator of how good the nation is from the viewpoint of a citizen based on actual living conditions against the gross domestic product. The most ideal value of the ratio of PPP (GDP) to Nominal (GDP) is 1 or less than 1. This indicates that nominal GDP only measures the success of the economy in terms of total domestic product and not on welfare. The PPP GDP of China is increasing at a faster rate than Nominal GDP even though China is one of the largest economies in the world and has more natural resources & manpower than any other nation.
The graph above indicates how PPP GDP of China is increasing at a significantly large rate in comparison to nominal GDP. To better understand the scenario of skyrocketing PPP in China clearly, we need to also take a detailed analysis of Chinese social and political environments as well alongside the economic aspects. Economic studies will often fail to provide a clear picture of the communist nation which is not same as the free western counterparts.

**Cost of living and Currency devaluation**

People often assume that if a product or service sold in their domestic market is half the price of what in a foreign country then it is better to live there, which is a misconception as it does not often indicate purchasing power of the citizens or the abundant availability of raw materials for the product. If we monitor the wage rates for workers engaged in the same type of labour in China vs the west or even India, we often find that the wages are lower in China despite cost of living being higher than in India. So workers of same private enterprise engaged in same work in all the other countries mentioned gets to save more of their income compared to their Chinese counterpart. This is a very complex argument as it often raises a question that if Chinese labourers are paid so low then why there would be more poverty in China in comparison to India? The answer is purely on how poverty is defined. If basic needs of a human access to food-water-shelter is what defines poverty then all these basic needs are provided by the government of China domestically at rates cheaper than India by means of subsidies and control of their currency. The Chinese government under the communist party has extensively studied on how to keep their industrial workforce occupied and employed at the same time by maintaining the highest degree of control over media and communication by leaving any room for the workers to organise or protest for higher wages. These low wages would be sufficient to keep their workforce out of poverty but well below international standards by maintaining the price of commodities in domestic market at bay for essential commodities. So even if the national currency Yuan plummets twice below US dollar, China ensures that its domestic market doesn’t face the same impact.

China often devalues its own currency to boost exports. So when there is a huge increase in difference between PPP GDP and nominal GDP it clearly indicates that there is a large adjustment being made in the currency and domestic market to maintain a basic living standard for the population to avoid poverty and unrest. Since the 1990s China’s exchange rate policy has come under immense criticism globally. The devaluation of currency boosts exports but pulls imports. This also attracts more foreign direct investment, however excessive manipulation of currency to compensate for annual economic growth and attracting more foreign investment may often lead to creation of asset bubbles. The Asian financial crisis of 1997 is a prime example of how currency manipulation and creation of asset bubbles eventually led to collapse of Thai currency (Peng, D 2008). China’s banking system is largely state controlled and is currently under immense pressure to lend money for investment, currently creating a property boom. Devaluation completely changes all prices inside an economy. It severely distorts price signals that a market projects. Such a misaligned price projection will eventually lead to unsound investments in short term which results in asset bubbles or boom, which would collapse in long run triggering a chain reaction of financial crunch (Dornbusch, 1995).

A large devaluation often leads to serious inflation, which the government would counter with nominal exchange rate anchor, which is often met with cumulative real appreciation. The real appreciation would slow down economic growth and results in slow mounting up of huge external deficit. Interest rates in local currency would increase thereby reflecting lack of public confidence in viability of the policy. Borrowing merely to fund firms will become a common phenomenon. This often creates the financial bubble or unsustainable situation (Jeanne O, 2000).

**Collective Actions and Worker Activism Cases**

China has been witnessing a tenfold increase in workers strikes, activism and collective actions since 2011. Strike of sanitation workers in Guangzhou, Honda workers strike, Keelung River Delta etc. are examples of growing anger and discontent among...
workers primarily on low wages and increasing living costs. However the Chinese government has been brutally cracking down on such movements.

**Worker Backlash**

As China’s economic-growth rate slows, manufacturing-job losses are sparking labor unrest in the country.

The arrest of five feminist activists in 2015 for planning to commemorate international women’s day to raise awareness on workplace harassments drew international criticism against Chinese president who was preparing to co-host UN summit on women’s rights in New York to mark twentieth anniversary of Beijing’s World Conference on women. The Chinese government’s detention of the five feminists marked an important turning point in the history of women’s rights in China, showing the world that a relatively small group of young feminists was capable of posing what the Chinese Communist Party perceived to be a serious challenge to its rule (L. H Fincher, 2018).

The Honda workers strike at Honda Auto Parts Manufacturing Ltd located in Foshan on 17th May 2010 is yet another example of repercussions of exploitation of labour. The Honda plant in Foshan is solely owned by Honda and the workers are usually hired from best technical institutions or competitors in China. However most of the industries in China also employ interns, these are students from technical universities or institutions who are required by the government to do 1 year mandatory internship before entering a permanent labour contract with an employer. The interns do not receive the same, wages, privileges, rights or benefits as permanent workers. During 2010 out of the total workforce of the Foshan Honda Auto Parts manufacturing, 80% of the employees were interns and only 20% or less were permanent workers. The strike involved 1800 workers and lasted 17 days. As this was a crucial plant manufacturing transmission components for Honda, it halted car manufacturing processes in other Honda factories within China. Company incurred daily loss of 240Mn Yuan. The two important and consistent demands raised forward were, increase in wages and democratic reform of trade unions as currently existing unions barely represented the common worker. Trade unionists often represented and sided with the interests of the company rather than the workers. The strike eventually led to clashes of around 200 trade unionists supporting the company against 40 workers. Company also resorted to firing employees and intimidating the workers. This however emboldened the movement and more workers joined in the strike. Further negotiations saw 16 workers elected into unions and trade unions issuing official apology to the workers. The strike ended with the company conceding to raise wages of permanent workers by 35% and interns by 70%. However company and senior leadership of trade unions refused to democratically reform trade unions stating that only the state or company management can make changes to associations (Chan, 2012). Immediately after the strike was over, the Chinese government began to increase its control and imposed restrictions over the media news reports on strikes, collective actions and the civil society actors who voiced support for the Honda workers. For example, the Chinese Workers Research Network, a media outlet was forced to close down by the State Council Information Office of the People’s Republic of China for “having covered articles with bad intention without authorization on 8 June 2010 (Chan, 2012).
Following Honda workers strike, numerous other collective actions have occurred in China with workers demanding better wages for a living than bare minimum for survival. An increased demand for rightful representation of the labour force within trade unions is also gaining momentum. The total number of mass incidents—an official term for popular protests—jumped from 10,000 in 1994 to 87,000 in 2005 (China Labour Bulletin (CLB), 2009). The total number of labour disputes handled by the Labour Dispute Arbitration Committee has increased six-fold from 1999 to 2008. The All-China Federation of Trade Unions has a double institutional identity, one as a state instrument under leadership of communist party of China and the second as an organisation for representing workers interests. Although the latter is paid very little attention to by the leadership of unions appointed by the communist party. Hence the Chinese government and the Unions together have managed to suppress majority of the protests and strikes, threatening workers with legal consequences.

**Conclusion**

Having examined the nature of communist government of China it is noteworthy that unlike the principles of Marxism and communism China operates on a bureaucratic capitalism under the state and communist party. There is a little to no freedom for expressing the distrust of the working class who turn the cycle of industrial manufacturing for the rest of the world at wages cheaper than any other economy on the planet. These cheap labour is in fact a bargaining tool that the real estate moguls and industrial overlords of China as well as the globalists and investors of fortune 500 manufacturing corporations have been taking advantage of against the rest of the world especially the West where employees enjoy far higher wages and benefits. Considering the amount of capital the state gains by keeping labour cheap, leaving no room for unemployment while ensuring bare minimum wages to keep the workforce dependent and working for their industrial capitalists and diverting production from all over the world to China thereby exerting a larger control over the world in manufacturing, the Chinese communist party has discovered a successful recipe to avoid any situation of forced regime change from within the country as well as from foreign entities despite its growing efforts on expansionism in South China Sea. While the west has already took the ride out from the ages of industrial revolution by ensuring better treatment and welfare of workers, China is still reluctant to leave behind the same, clinging on to the concept of creating capital at the expense of the lives of expendable workers.

Also taking a look at HDI (Human Development Index) we can see United States and UK ranks 16th and 14th respectively whereas China is 89th in the list. HDI measures the countries’ overall success in social and economic dimensions. So unlike China’s skyrocketing PPP (GDP) curve the HDI shows a slow trend pointing to how far they are from ensuring overall human development despite being the world’s largest GDP with largest workforce. The Chinese economy thus is more of a locked economy which would be able to keep pace with the rest of the world only if it stays locked and intensely regulated forever which is achievable if Chinese politics keeps dominated by state run capitalism concealed in a communist shell with little room for actual welfare of its working class.

**References**


