Labor Strife in China

Nicholas R. Lardy assesses the impact of labor disputes on Chinese wages, noting that wages have actually been increasing 15 percent per year for a decade.

Steve Weisman: There are reports of rising labor turmoil in China, raising questions about the future of China's economic growth and the trade situation. This is Steve Weisman at the Peterson Institute for International Economics with Nicholas Lardy, senior fellow here to talk about the implications of these trends. Thanks Nick.

Nicholas Lardy: Thank you, Steve.

Steve Weisman: There have been a lot of reports in the news about labor strife, strikes, protests, and wages going up in China. What are the real trends?

Nicholas Lardy: In terms of the trend in labor strife, it's difficult to tell. The two specific cases that have gotten a lot of attention are very, very large visible foreign firms: Honda in one case and a Taiwanese case—a company named Hon Hai or Foxconn, as it's more commonly known. They have gotten a lot of publicity for a variety of reasons. But it's not yet clear, at least to me, that this reflects a trend of rising labor unrest in China. I rather suspect it doesn't, but time will tell.

Steve Weisman: Are the Chinese reading about these disputes?

Nicholas Lardy: Certainly they're reading about it and they know about it. One has to keep in mind that in China the only labor union that has ever been allowed to exist is firmly under the control of the Chinese Communist Party. And they have never allowed this union to engage in any collective bargaining whatsoever. The union in China has run campaigns for safety in the workplace and things like that, and [has] never taken a role in wage setting. I would be extremely surprised if the party was prepared to really allow the union to undertake this role. I would be even more surprised if they allow any other independent unions to arise that would try to organize the workforce in a single factory or in a single sector of the economy. This is something that they would be almost certain to not allow.

Steve Weisman: Is there any kind of public sentiment though, in China, that the workers or the peasants or the ordinary Chinese are sharing in the benefits of the prosperity that China has had economically?

Nicholas Lardy: That is a concern. But people in China recognize that wages have been going up fairly rapidly for more than a decade. The average wage increase in urban areas in China across manufacturing and services, across all different kinds of ownership, whether it's a traditional state-owned company or a foreign-invested company— the average wage increase per year in the last decade has been a little bit more than 15 percent.

Of course, there's been some inflation, but the Chinese government has had a very strict policy of trying to control inflation. So over this decade inflation is, on average, more than 2 or 3 percent per year. That means real wages are going up in excess of 10 percent per year. That's why people have flocked to these factories on the southeast coast from rural areas. These have been considered highly desirable jobs and people are willing to travel thousands of kilometers to get these jobs. In general they've been able to save a lot of money and sometimes go back to their original villages and live very comfortable lives. There is a downside of course: they have to work very long hours, they're not always paid the overtime rates that they're supposed to be paid—

Steve Weisman: And there have been some disputes over that as well, the working conditions and hours.

Nicholas Lardy: Yes. It varies a lot. But the factories that have the suicides were among the most exemplary factories in China. These are massive facilities. This company employs 400,000 people in China—if you can imagine one company. They have large campuses that are filled with amenities: swimming pools, recreation facilities, they have their own hospital, they have their own restaurants, they have their own banks, all within the compound. And the living conditions—while we would regard them as Spartan—by Chinese standards, particularly in factory work, are considered to be quite good. So the suicides have been a little bit surprising because they are in a facility run by a company that has one of the best reputations.

Steve Weisman: What explains it?

Nicholas Lardy: I hesitate to say because I don't have any firsthand knowledge. But I think it's the long tedious work, the long hours, over which frequently workers do not have control. They're expected to work overtime—it's not a voluntary thing. You would just be required to work, you know, twelve hours a day, six days a week but only a day off. So you know the tedium I think for some people becomes a major factor.

Steve Weisman: Coming back to the trend that you just identified of wage growth over the last 10 years, how [do you] explain the sudden media attention to the wage growth that's occurring now and rising questions about Chinese competitiveness?

Nicholas Lardy: I think the two cases we've mentioned have gotten a lot of attention because in the Honda case there was actually a work stoppage, which is extremely rare in China. So I think that put the focus on all of the Honda facilities—not only their final assembly plant but some of the plants producing components for their factories. In the case of Foxconn, obviously, it was the suicides—a number of suicides over a period a couple of weeks that originally brought so much attention. The wage increases followed. I think quite frankly a lot of people reporting on China basically haven't noticed or have been unaware of the fact that wage increases of 15 percent per year are routine. In some cases in the current environment, they're getting more than 15 percent. Whether or not this turns out to be a general trend I think remains to be seen.

Steve Weisman: You don't see this trend as having a major impact on exports, for instance?

Nicholas Lardy: It could have some impact on some sectors, but one has to take into account that the fastest growing and largest segment of Chinese exports today is consumer electronics and information technology hardware. And the labor cost in those products is well under 5 percent. So if you have even a 30 percent wage increase, and you're running one of these factories, you have to pay the workers 30 percent more. It sounds like a big increase that might put you out of business: it means a 1.5 percent increase in your total cost of production. And many of these firms have productivity growth that allows them to even offset this increase. So yes, there'll be some hit to profits in the short term. But the idea that is current in some quarters is you, know, wages have gone up 30 percent—therefore iPods and iPhones and so forth are going to cost 30 percent more sometime soon. This fails to really understand the nature of the production process. The parts and components that go in to these electronic products typically cost at least 15 to 20 times more than the wage. And there are other costs on top of the parts and components: the profits, the distribution costs, and so forth.

Steve Weisman: Speaking of the costs of exports to consumers in America or elsewhere, just a final question: the Strategic and Economic Dialogue (SED) occurred a week or two ago with the Treasury secretary and secretary of state leading the big delegation to China. Was anything advanced on the currency issue there as far as you can tell?

Nicholas Lardy: Judging from the public record you would have a very hard time making the case the progress was made on that issue. It was not given much prominence in the public statements. It seems to be a part of a now fairly longstanding policy on the part of the Treasury secretary not to put a lot of public pressure on the Chinese. He has said repeatedly over recent months that he believes that the Chinese will soon see that it's [in] their own interest to allow their currency to appreciate vis-à-vis the dollar. The other factor is, of course, that the Chinese currency, if you look at it across all of their trading partners on average, has appreciated quite a bit over the last few months because the euro has fallen so dramatically. So they're still pegged to the dollar, but if you look across all the currencies, the euro has weakened, other European currencies have weakened in parallel, sterling has weakened. The Chinese currency actually appreciated quite a bit across all of China's trade partners, but just not with the United States.

Steve Weisman: Nick Lardy, thank you very much.

Nicholas Lardy: Thank you, Steve.