

China's factories spread the wealth

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Karl Marx would not have been surprised by China's astonishing two decades of growth. His analysis of capitalism, describing how an "industrial reserve army" holds down wages and boosts profits and capital accumulation, would have noted that nowhere is the pool of unemployed but employable workers greater than in this nominally communist yet voraciously capitalist state.

The [protests and wage demands](#) at [Foxconn's](#) and [Honda's China plants](#), however, show how rapidly this analysis is becoming outdated. For a while, China's reserves of cheap workers from the rural hinterlands seemed inexhaustible. But sooner than most expected, two limits have come into view. One from workers' heightened expectations in the manufacturing cities of China's coastal provinces. The other from the mounting stress rural-to-urban migration puts on China's physical and social environment – and on migrants themselves, who enjoy little protection under their country's anachronistically place-bound legal system.

So the flow of migrants from inland China can no longer be counted on infinitely to expand manufacturing capacity on the coast. Business has taken the consequences. As the FT reported on Tuesday, [Foxconn is preparing to move production](#) of some Apple gadgets (it makes iPods, iPads and iPhones) to a future factory in inland Henan, China's most populous province.

The company may have little choice. The [wage doubling](#) it has conceded to some of its workers will have little impact on its sale prices – labour accounts for only 3 per cent of total costs – but can do a lot of harm to the profit margin. With wages more than a third lower in some provinces compared with Shenzhen, it is not surprising that more manufacturers seek to build factories off the beaten track. The more of them that do so, the easier it will be to meet customers' need to ramp up production in the face of increased demand. That need made some of the companies that put their logo on the products resist relocations in the past.

As this changes, a new chapter is being written in the awe-inspiring story of economic development in Asia. Starting with Japan, country after country grew rich by following the same playbook: step on to the lowest, dreariest and most labour-intensive rung of industrialisation and gradually move up the value chain as you build up skills and capital, letting poorer countries take on the tasks you shed. This is how the "Asian tigers" copied Japan, and how successive generations – including China itself – followed. The current relocations are no less momentous for happening within a single country.

The industrialisation of China's coast was history's single greatest poverty-reducing phenomenon. We may be set for a second act.

