

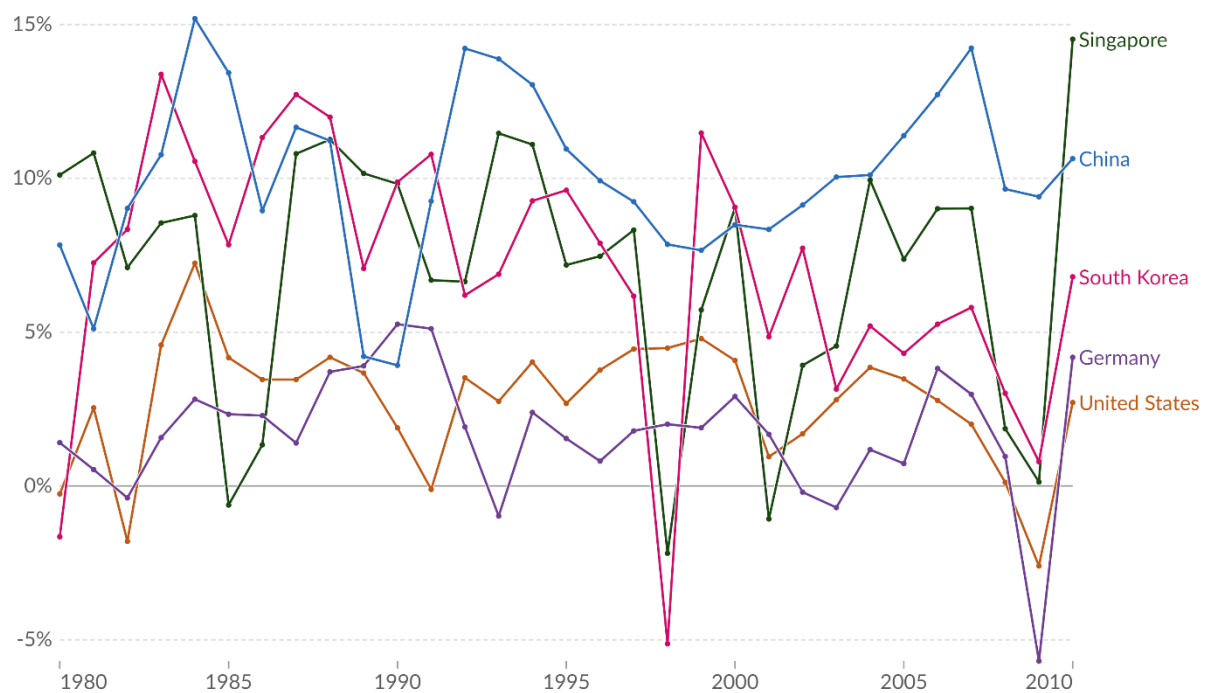
# The Evolution of China as a Global Manufacturing Powerhouse

China's rise as a global manufacturing powerhouse stands as one of the most significant economic transformations of the modern era. The speed of China's economic growth from its establishment as a republic to current day is achieved by a very few in history. It grew at an average annual rate of 10% from 1978 to 2005, which is well over some of largest economies over that period (Fig 1). Over the past many decades, the country has undergone a remarkable journey from an agrarian society to the world's leading exporter of manufactured goods. It has transitioned from being a planned socialist economy in the 1960s to a mixed economy.

## Annual GDP growth, 1980 to 2010

Gross Domestic Product (GDP) is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products.

Our World  
in Data



Data source: World Bank

OurWorldInData.org/economic-growth | CC BY

Fig 1. Annual GDP growth rates of selected countries (Source: Our World in data)

Many give credit for this rise as brought about by the Chinese state. However, though there is slight disagreement between theorists as to what lead to this growth. One group cite the market-oriented reforms, freeing private economic activity, liberalisation of foreign trade and investment as the reason for such growth. While another group, institutionalists, cite the close monitoring and intervention of the Chinese state into markets, supporting the infant industries, forcing technological transfer and opening the economy gradually with significant controls on the movement of goods and investment.

However, both these cases are true, just any or both the reasons emphasising China's transformation is just too narrow to fully explain its trajectory. China's case has not just been freed entrepreneurs fully utilising the 'opportunities of globalisation', but it is the timing and character of transformation within China along with the structural change in production processes within global capitalism that has led to this particular pattern of distribution of

sectors in Chinese economy. This particular pattern of duality between a small sector of capital intensive highly technological production characterised often by government partnership with foreign investors and rest of the majority production in labour-intensive firms producing basic manufactured exports.

This essay will delve into the factors that bulldozed China onto global stage as the leader of the manufactured goods.

## **Historical Context and Early Industrialization:**

China's early policies after its establishment as People's Republic of China in 1949 under the leadership of Mao Zedong were bearers of his socialist thoughts. He abolished private plots and introduced a system of collective agriculture production or collectives called communes which would themselves be responsible for all economic and social activity. His policies were also influenced by Soviet style of communism which meant heavy investments into industrial development potentially at the expense of other industries. In the initial years this collectivism paid off, agricultural output grew 4% annually. Industrial output also exploded growing annually at a rate of 19%. (Brown, 2023)

Iron and Steel production became the anchor of development; with rising ambitions rising the idea of utilising farmers and industrialising countryside did not seem too far off. Hence farmers were motivated to set up furnaces and get involved in production of iron, but what would a farmer know of producing iron? Instead of mining ore farmers (and how could they) used practical iron implements- tools, utensils, farming equipment, everyday items for producing iron. The fanatical devotion towards Mao lead to farmers working day and night to produce both and agricultural and industrial harvest. High expectations in the form of higher output quota met with false reports from the local officials in fear of being branded as rightist. (Brown, 2023)



Millions of backyard furnaces spread across the countryside.  
Source: <http://tiny.cc/k9ohmw>.

Eventually in year if 1959 when government had raised taxes which were based on the inflated output figures, famers had to forego a much higher percentage of actual grain output, the worse the inflated figures the worse was the taxed output. As food reserves diminished, famine ensued, farmers began dying in large numbers in summer of 1960. Hunger drove people to subsist on seeds, grasses and tree bark, when these became scarce, people ate soil just to fill their stomachs. Eventually with exposed corpses, some turned to cannibalism, though mostly scavenging yet rarely children were intentionally killed for food. (Dikotter, 2011)

Mao Zedong died in 1967. His death also took with it, his socialist way of organising the economy; allowing for the new era of capitalism to kick in.

## **Post Mao Period and Early Reforms:**

After Mao, Deng Xiaoping came into command of Communist Party of China. He was educated in France and had seen the outside world in greater detail than his compatriots. Preserving socialist character of China and continuing the way of Mao was least of his priorities. To see China on the equal footing as other developed countries was more of his concern. Therefore, he introduced a series of reforms that transformed China from a centrally planned autarkic economy towards a more market oriented one (with its own set of restrictions). The



very first step he took towards realising this was 'Open Door Policy'.

Deng on his visit to America in 1979.

Source: Wikimedia commons

The Open Door Policy was an attempt to replicate the rapid growth seen by 'Newly Industrialising Countries' (NIC) in East Asia through the development of export-oriented industrial sectors. As a part of the policy the PRC established Special Economic Zones (SEZs). These were areas which were characterised by separate industrial rules and regulations in order to promote export-oriented industrialisation. The city of Shenzhen was the first SEZ created in 1979. The SEZs enjoyed decentralisation of regulatory functions to local officials, low corporate taxes, minimal environmental and urban-planning and safety restrictions, and free movement of goods and capital. The larger goal of this policy was to induce technology transfer by joint venturing transnational corporations with Chinese companies which would lead to a more robust development of industrial sector. This would eventually lead to expansion of inland industries that engaged in production of raw material inputs and consumption goods. Initially, the focus was on labour-intensive industries such as textiles, apparel, and light manufacturing, leveraging the country's vast population and relatively low labour costs to attract foreign investment. (Taylor, 2008)

The government also later introduced Coastal Development Policy after unsatisfactory results from Open Door Policy. Its primary aim was to increase industrialisation in labour intensive

light-manufactures for export such as textile, shoes industry etc. The policy further relaxed the movement of goods, now allowing for unrestricted import of inputs. Government authority was decentralised to give local governments more authority to take further measures such as tax breaks, establishment of foreign trading firms, restrictions on forming joint ventures with Chinese companies as well as transfer of technology were relaxed or lifted to buttress investor's confidence. (Taylor, 2008)

### **Shifting Global Productive Structures:**

In the 1970s manufacturing in the developing world was becoming lesser profitable due to overaccumulation of capital especially in sectors with low entry to barrier such as manufacturers of consumer goods. This overaccumulation of capital caused overcapacity and overproduction than what was needed and therefore lesser profits. (Taylor, 2008) Therefore, firms started looking outside their national boundaries for production and assembly of goods. Under the 'old' international division of labour (NIDL) where developing countries were incorporated into world economy principally as suppliers of raw material and agricultural commodities; in the 'new' international division of labour there was a transference of production from developed countries to developing ones. It is in this context that the timing of China's liberalisation policies and economic reforms around 1979-80 created a huge potential for industrialisation and economic growth. Despite this phenomenon and the creation of SEZs, China did not see much investment coming from developed countries initially because of skepticism around the economic environment in China. Yet still investments came from the close-by neighbour Hong-Kong which had highly benefitted from NIDL; in which the role of rural migrant labour was instrumental in bringing about. (Taylor, 2008)

### **The Role of Rural Migrant Labour:**

Unlike in the Maoist era where labour was centrally managed by a range of social institutions, in the times of Xiaoping reforms allowed workers to free to move, i.e., allowed for commodification of labour. the workers were free to move but this also freed the worker from any form of alternative subsistence and makes them dependent on markets, to secure daily wages for survival (Marx's double freedom theory). In this context the surplus rural migrant labourers were crucial aspect of China's manufacturing success story. There was massive influx of rural migrant laborers into urban industrial centres. These internal migrants, often referred to as the "floating population," provided the manpower necessary to fuel the country's industrial growth. Leaving behind their agrarian roots in search of better economic opportunities, these migrants formed the backbone of China's manufacturing workforce. They were cheap since they were in surplus. (Taylor, 2008)

By the late 1970s expansion of production in Hong-Kong led to rise in competitive pressure between firms. Concurrently labour shortages drove up costs and further increased pressure on manufacturing sector. As a consequence of which there was spatial relocation of production to China into either SEZs or coastal areas which were near Hong Kong. (Taylor, 2008)

This initial success led the government to implement CDS policy to further attract FDI into

China.

Indeed, FDI into China increased manifold from \$12 billion in 1991 to \$58.7 billion in 1992 to \$111.4 billion in 1993. (Taylor, 2008)

But this would not have been possible without the specific characteristics of labour in China. De-collectivisation allowed for surplus labour to get free from agriculture and move to cities for better opportunities. These internal migrants did not have any formal residence status in the cities and therefore denied of the social services were pushed into employment with poor working conditions.

Lack of formal status has exposed them to systemic violation of basic labour rights proving a great attraction for labour intensive production.

### **Poor Labour Practices:**

As mentioned earlier the development of SEZs across China have been based on a massive harnessing of the migrant workers. Lack of social protection meant that workers were subject to abhorrent conditions. It was this ability of manufactures or disability of workers that gave them a competitive edge in certain aspects of production even over those economies where labour was cheaper than China.

Starting from wages many workers especially those in manufacturing industries, were paid very low wages, often below subsistence levels. In addition to that worker were given delayed payments as a practise to ensure discipline in workers and also to prevent them from leaving the job. Workers were wrongly contractually signed of a higher wage than what was paid, otherwise workers could not get a job. Even when, though rarely, if a firm was brought in light for faulting on payments, the firm falsely declared itself as bankrupt and then start anew with a clean slate. (Taylor, 2008)

Workers were made to stay in dormitories in the factory complex which allowed firms to exercise control over workers' food, social and leisure needs. This fixation of labourers within dormitories allowed firms to control intensity of labourers by increasing labour hours to exact maximum productivity out of workers to meet the changing demands from buyers. This gave an advantage to China in turning up the orders faster than their competitors. Workers frequently endured excessively long working hours, sometimes exceeding legal limits without proper compensation for overtime. Occupational safety standards were often sub-par or not enforced rigorously, leading to frequent workplace accidents and health hazards. (Taylor, 2008)

In the 1990s 'corporate social responsibility' was introduced, initially for textile industry, to maintain minimum set of standards of working conditions for their workers. This arose from anti-sweatshop movement in developed countries which accused corporations of turning blind eye towards working conditions in countries they sourced their products from. But supplier firms quickly found ways of bypassing such requirements. Double book keeping, the practise of covering up genuine factory records by false ones quickly became prevalent. Not only that worker time stamps and salary contracts were also faked. Training the workers to say specific answers when faced with certain questions by inspecting officer sent by the western buyer or retailer firms was also common. In fact the inspecting officer did not care about the working

conditions, rather they often came to inspect the coming shipment. (Taylor, 2008)

Workers had limited rights to organize and bargain collectively. Independent labour unions were not allowed, and efforts to organize were often met with harsh repression. As a result, while labour productivity increased by 170 percent between 1990 and 1999, real wages increased by less than 80 percent. Despite legal prohibitions, child labour was still prevalent in certain industries, particularly in rural areas and informal sectors. Migrant workers from rural areas often faced more discrimination, lower wages, and poor living conditions compared to urban residents. Many workers lacked access to social security benefits, such as healthcare, pensions, and unemployment insurance. (Taylor, 2008)

These poor labour practices really gave an edge to manufacturing industries in China in producing goods at the lowest costs attracting FDI from all over the world.

## **Conclusion:**

In conclusion, China's evolution into a global manufacturing powerhouse has been a complex and multifaceted process driven by a combination of historical, economic, and social factors. From its early industrialization efforts to its current status as the world's largest exporter, China's manufacturing sector has undergone remarkable growth and transformation. This was a result of the shift in global production sectors and the timings of the economic reform, which was a result of shift in and shift in the philosophy of government from a relatively socialist to a relatively capitalistic state coupled with the autocratic nature of the government which meant absence of independent institutions and hence existence of conditions in which the workers found themselves. Needless to say, the growth of Chinese economy was based on the presence of migrant workers and workers in general who bulldozed the economy towards higher growth, who dogged through day and night under abhorrent conditions.

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