The Jus Semper Global Alliance

Living Wages North and South

Sustainable Human Development

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A comparative approximation into China's living-wage gap

China's manufacturing wages incorporate millions into the modern slave work model of today's Darwinian capitalism in one of its direst possible forms

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China is an exceptionally important player in the global capitalist system and its international division of labour. China is currently the third largest economy in GDP terms, after the U.S. and Japan, and has been growing at an average of 10,3% GDP between 1991 and 2008, according to the World Bank. In 2006, China surpassed Mexico to become the second-largest trading partner of the U.S., behind Canada, and it is set to become number one if it maintains its trade growth with the U.S. in the mid-term future.

In this role, China has become a strategic partner for U.S. multinationals. It has become their most important source of cheap labour. It has allowed U.S. multinationals to remain competitive both in the U.S. domestic market and in foreign markets by exporting their goods at internationally-competitive prices. More than anything, it has allowed managers of transnational corporations to deliver their ultimate goal of ever-increasing shareholder value for the institutional investors of Wall Street, the City and the other major financial markets of the system's speculative economy. This opportunity has, indeed, been taken up prominently by many U.S. multinationals, but also by global companies from the EU, Australia, Iberian America and, particularly, from South Korea and Japan. Although agriculture is still a very important economic contributor in China (11% value added versus a 3% average for the world in 2007), manufacturing is by far the dominant contributor, at a far higher rate than the world's average (48% value added versus 28% globally in 2007).[1] This makes China, clearly, the country with the largest number of people employed in the manufacturing sector in the world, with 112 million workers.[2] Similarly, China provides its large pool of workers in both labour-intensive and skilled labour manufacturing –as could be expected- at some of the lowest real wages in the world, even by developing world standards. This poses a rather intractable problem for the labour endowments of workers worldwide, but all the more so for those in the periphery of the world's capitalist system, as Wallerstein described it.

[1] World Bank: World Development Indicators database, April 2010.
[2] Erin Lett and Judith Bannister: China's manufacturing employment and compensation costs: 2002–06. Monthly Labor Review, April, 2009.

❖ *Introduction*

Some recent studies argue that, due to demographic trends, this economy may be about to reach the turning point when its pool of surplus labour would start declining, which would make real wages rise. The number of cases of labour strikes and other forms of pressure that have resulted in dramatic wage increases are apparently mounting. This year alone, Honda settled a labour dispute with a 24% wage hike, and Foxconn, an electronics-maker, offered to double the wages of its workers at its Shenzhen complex beginning next October, if their work was up to scratch, following a string of widely publicised suicides.[3] But this is still too early to tell and it is strictly based on traditional market logic. It has nothing to do, whatsoever, with any notion of true corporate social responsibility that would motivate corporations to raise real wages and establish as a standard the payment of living wages. That is anathema to the market. On the contrary, if China eventually runs short of workers, market logic –Darwinian as it is– would make multinationals leave China to better labour exploitation heavens, where the political-business oligarchies would be more than happy to let corporations exploit their citizens in exchange for a share of the profits in pursuit of their very private interests. Moreover, it is unlikely that China's government has the intention to implement a policy to progressively put China's real wages at par with those of its major trading partners. China is increasingly paying attention to the development of its domestic market, but this does not mean that the vast majority of its labour force will no longer remain a resource to be exploited by the world's capitalist system, in the current marketocratic ethos. As Serge Halimi argues, *Chinese growth took over when the U.S. machine broke down, helping the capitalist system weather the worst storm since 1929. Globalisation, wounded on Wall Street, recovered its strength in Shanghai. How will China use its power? It showed no inclination at the G20 and Copenhagen summits to plead the cause of the poor or the countries of the global South. Its pattern of development is attractive, but mainly for those who seek to combine economic growth, free trade and stability with the power of a political-cum-industrial oligarchy (2). Western businessmen are among the strongest advocates of this "Beijing model"*…[4] This Darwinian logic imposes a tremendous downward pressure on the quality of life of many societies in the developing world, for governments have bet their sustainability in power on customary centre-periphery relationships. They put emphasis on the attraction of so-called foreign direct investment (FDI) by offering cheap labour at misery prices to global corporations. The argument is that this generates jobs and triggers other multiplying effects that benefit the overall economy. Benefits that, to be sure, are completely in question since such model has systematically demonstrated to overwhelmingly depredate the real economies of periphery societies and will continue to do so as long as wages remain of a modern slave work nature. The ulterior motive of those in control of governments is to seek their legitimacy in power from the metropolises of the system instead of from the citizenry, thus maintaining their system of exploitation. The result is a rather dire situation for the vast majority of the population in these societies. Neoliberal globalisation has globalised consumer markets, prices and access to labour pools, but wages, deliberately, have not been globalised. In this way, multinationals and their partners in the centre-periphery system get all the benefit whilst the societies of developing economies bear most of the costs. In this sense, the extremely low level of China's wages is a perfect strategic element used by corporations to maintain strong pressure on the manufacturing wages of other economies that compete with China for FDI, and periphery governments enthusiastically comply with providing their labour force under modern slave work conditions. Similarly, this logic has put a cap on the real wages of workers in the major economies. One emblematic example is the U.S. According to the Economic Policy Institute, the so-called "new economy" has bypassed most working families in the U.S. and it has driven a wedge between productivity and living standards.[5]

This is the political economy milieu explaining the labour endowments of Chinese workers. My analysis of wages for all employees in the manufacturing sector in China between 2002 and 2006 indicates that Chinese manufacturing sector real wages are improving, but they are doing so at a rather slow rate. Further assessment indicates that, if real wage increases continue at such a rate, it would take almost three quarters of a century to –in a hypothetical case– close the gap between the current value of wages and the value of a living wage for manufacturing employees in China. Furthermore, this would be true only under stable conditions of low inflation globally and, particularly, in China and the U.S.; an optimistic event in a global system that is by nature unstable and even more so as it is increasingly dominated by the economics of global institutional financial market speculators. It could easily take much longer unless a specific economic policy of real wage appreciation is implemented –such as Brazil has just initiated this year.[6]

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[3] The Economist: Socialist workers – Is China's labour market at a turning-point?, June 10, 2010.
[4] Serge Halimi: The Beijing Model, Le Monde Diplomatique, Febraury, 2010.
[5] Lawrence Mishel, Jared Bernstein and Sylvia Alegretto "The State of Working America 2006-2007", Economic Policy Institute, Cornell University Press 2006.
[6] See: Álvaro de Regil: Brazil: In perfect harmony with TLWNSI's concept, The Jus Semper Global Alliance, A TLWNSI Issue Brief, January 2010.

❖ *A Living wage perspective*

From the perspective of Jus Semper's The Living Wages North and South Initiative (TLWNSI), China's real wages in the manufacturing sector are light years away from reaching the quality of what would constitute a living wage in its economy. Although China's cost of living –in purchasing-power parity (PPP) terms– is less than half that of the U.S., the real value of China's manufacturing wages is only a tiny fraction of U.S. wages in the sector. This makes the quality of these wages what constitutes, in today's globalised economy, an outright modern-slave work ethos: the system of labour exploitation that is so pervasive across the developing world. To be sure, the reason multinationals moved to China, in the first place, is to employ the labour pool at subsistence wage levels to maximise shareholder value. The moral hazard for the plight of workers is non existent in today's globalised business culture. This so-called "externalities", of neoliberal jargon, are considered by marketocratic governments a perfectly normal phenomenon of capitalism. It is the cost of doing business; yet not for the owners of the market, surely, but for society.

Given the importance of China as a major global player, there is considerable interest in a diversity of stakeholders in assessing the level of China's labour endowments in the manufacturing sector. Above all, the extremely low level of its real wages generates a very negative impact on the wages of participating economies, as earlier argued. In essence, China's low wages trigger a race to the lowest common denominator in real wages among these countries. As could be expected, to maintain this rather unfair and unsustainable labour environment of misery wages, labour rights are customarily violated by governments and the private sector in their race to the bottom.

Jus Semper's TLWNSI project has been seeking, for several years, reliable data that can enable it to assess the state of real wages in China and their gap with a living wage. TLWNSI regularly uses as its main source for its analytical work the annual reports published by the International Labour Comparisons (ILC) programme of the Bureau of Labour Statistics (BLS) of the U.S. Department of Labour. The ILC publishes on an annual basis the hourly compensation costs for both all employees and production-line workers in the manufacturing sector for 32 countries in the Americas, Asia, Oceania and Europe. Yet, despite its keen interest in assessing labour costs in China, directly comparable data have not yet been included along with the rest of the countries. The main reason is the difficulty in obtaining and interpreting China's wage data and concerns of the BLS about the quality of the data. Nonetheless, the BLS has commissioned a series of reports on manufacturing compensations in China since 2005.[7] The reports provide a detailed account of the methodological difficulties in analysing the data comparatively vis-à-vis data of other countries.[8] Succinctly, China provides reliable and detailed comparative data on urban manufacturing units. Yet despite the fact that the majority of manufacturing workers are employed in production units outside urban areas, only the total number of workers and the total annual wage bill for these manufacturing workers is made available in official data.

Furthermore, Lett and Bannister –the authors of the BLS' reports on China– argue that it is possible that there is a deliberate undercount on the actual annual number of hours worked in manufacturing, in order to comply with labour laws. In this sense, hourly wages would be overestimated since they actually would account for more hours worked and not reported. Yet there also appears to be a deliberate underreporting of the actual number of people employed and the wages paid, in the interest of avoiding the payment of taxes and social security contributions. As a result, Lett and Bannister's work combines the ample urban data with the less plentiful data for non-urban manufacturing. The gaps in the latter data are filled by estimating non-wage components of labour compensation and the actual hours worked per year. As Lett and Bannister explain in their most recent report, albeit these data are not as reliable as those for the most developed economies, *the accumulated evidence to date, including China's First National Economic Census..., supports the general validity of the BLS' annual calculations on China's manufacturing employment and labour compensation.*

From TLWNSI's perspective, such validity makes it a clearly coherent exercise to perform a comparative analysis of the level of real wages in China, in PPP terms, with other countries. First, the data for all countries in the ILC programme are not precise but the best estimate of the level of hourly compensation costs. They also bear methodological differences, which, nonetheless, do not imperil deriving a good picture of how nominal wages in manufacturing compare between countries. They provide an estimated comparative quality of wages and their trend in a time line. The data from China are an estimate that comparatively appears to be relatively less reliable, but are still a valid source to assess the quality of

[7] Judith Bannister: Manufacturing earnings and compensation in China. Monthly Labor Review, August, 2005.
[8] Erin Lett and Judith Bannister: Labor costs of manufacturing employees in China: an update to 2003–04. Monthly Labor Review, November, 2006.

wages and how they behave in time. Secondarily, the annual reports on international hourly compensation costs of the BLS have included a short section for China since the 2006 report –with 2005 data for 32 countries. Thus, although the hourly compensation figures for China appear in a separate box, it is virtually impossible to not draw comparisons with the other countries to assess the level of China's manufacturing real wages, as a major player in the global market. In this way, TLWNSI now deems it appropriate to prepare its first comparative report of hourly compensation costs in China's manufacturing sector vis-à-vis selected countries. Along with the fact that the accumulated evidence since 2005 provides validity to the BLS calculations, these five years of data also allow us to assess a trend over the period.

It should be clear that in the following assessment the data analysed reflect the combined level of wages for both production-line workers and all other employees in the sector. This average generally makes wages higher than those that refer to production-line workers only. This is generally true both in China, the U.S. and elsewhere. For instance, in the U.S. –the customary benchmark to assess living-wage gaps with other countries– production-line hourly wages in 2006 were $24,15, whilst hourly wages for all manufacturing employees were $29,98. The analysis is performed following TLWNSI methodology for determining what would constitute a living wage for people employed in the manufacturing sector in China, with the equivalent U.S. wage used as the benchmark. First, TLWNSI's living wage concept is explained in detail in the following section. Then, we will review China's 2002-2006 nominal and real wages –in PPP terms– in order to assess the dimension of the gap between the real wage and the living wage. Subsequently, we will perform two projections into the future of China's manufacturing sector wages. The first projection is based on the growth experienced during the five-year period of this study. This will allow us to prospect how long it would take to close the living-wage gap –at the average nominal wage growth rate of 9,2%– under certain assumed conditions. The second projection explores the average growth rate of Chinese real wages, in the manufacturing sector, required to close the gap in thirty years –TLWNSI's standard to close wide wage gaps– under certain assumed conditions.

❖ *TLWNSI's living wage concept*

The gaps between real wages and living wages in most developing countries are so wide that realistically it would be impossible, for many reasons, to close the gaps in a few years. As a general rule, TLWNSI's conceptual framework increases real wages by applying the sum of the inflationary index of the immediately preceding year plus several additional percentage points to nominal wages. The exact amount of additional percentage points depends on the size of the gap and the term that each government imposes on itself to fulfil the goal of closing the wage gap. That would be a political economy decision. TLWNSI's goal is the equalisation of wages –in PPP terms– of developing countries with their U.S. counterparts in the term of not more than thirty years or a generation. TLWNSI's research indicates that, to fulfil the goal –in the maximum term of thirty years– most economies need to increase wages annually an average of 5% (+/- 2%) above inflation. Thus, if, for instance, inflation averages 5%, wages would increase nominally an average of 10% to reach its goal. TLWNSI's conceptual framework is firmly anchored on the context of true democracy. That is, a truly democratic ethos has as its only purpose the welfare of people and planet. In this ethos the market is firmly harnessed to work as a vehicle to generate material welfare instead of being an end in itself as is currently the case. To be sure, TLWNSI's concept parts from the assertion that we do not live in democratic societies but rather in marketocratic societies where the market has overtaken the halls of governments and dictates the public policy to fulfil its very private interest. In essence, the public matter has been privatised and politicians discuss it in private with the owners of the market, the world's institutional investors. The policies that the EU is currently taking to supposedly protect the euro –including, prominently, the downgrading of labour standards– is the most recent example of how financial markets dictate public policy decision making to impose the neoliberal mantra –in which their very private interest is embedded.[9] In a succinct manner, TLWNSI's concept is comprised of the following elements:[10]

1. The argument

- In true democracy the purpose of all governments is to procure the welfare of every rank of society, especially of the dispossessed, with the only end of all having access to a dignified life in an ethos where the end of democratic societies is the social good and not the market. The market is just one vehicle to generate material wellbeing,

[9] See: The Economist: 1) Fear spreads A big rescue package for Greece has not protected other countries such as Portugal, 6th May 2010; 2) Labour reform in Spain isn't working, 17th, June 2010; 3) Reforming France State of denial, 17th June 2010.

[10] For a detailed presentation see: The Jus Semper Global Alliance: The Living Wages North and South Initiative (TLWNSI). A strategic program to commit the private sector (Working draft 2006): http://www.jussemper.org/TLWNSI/Resources/TLWNSING0303.pdf

- In this ethos, and with markets globalised, workers performing the same or an equivalent job for the same business entity, in the generation of products and services that this entity markets at global prices in the global market, must enjoy an equivalent remuneration.
- This equivalent remuneration is considered a living wage, which is a human right,
- The benchmark used is the wages paid by the entity in the North; namely the U.S.,
- A living wage provides workers in the South with the same ability to fulfil their needs, in terms of food, housing, clothing, healthcare, education, transportation, savings and even leisure, as that enjoyed by equivalent workers in the North, which we define in PPP terms as defined by the World Bank and the OECD,
- The material quality of life in Jus Semper's TLWNSI is defined in terms of purchasing power, so that equal pay occurs when purchasing power is equal,
- Purchasing power is determined using PPPs,
- PPPs are the rates of currency conversion that eliminate the differences in price levels between countries.

2. Definition of a living wage

- A living wage is that which, using the same logic of ILO´s Convention 100, awards "equal pay for work of equal value" between North and South in PPPs terms,
- The premise is that workers must earn equal pay for equal work in terms of material quality of life for obvious reasons of social justice, but also, and equally important, for reasons of long-term global economic, environmental and social sustainability.

3. Supporting criteria

The argument of an equivalent living wage is anchored on two criteria of international law:

- ✦ Article 23 of the UN Universal Declaration of Human Rights, on the following points:
  a. Everyone, without any discrimination, has the right to equal pay for equal work,
  b. Everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
- ✦ ILO´s Convention 100 of "equal pay for work of equal value', which is applied for gender equality, but applied in this case to North-South equality, using PPPs as the mechanism.

4. Other ethical criteria from a human rights perspective

- The proposal is to make workers in the South earn living wages at par with those of the North in terms of PPPs in the course of a generation (thirty years).
- Just as the ILO's Decent Work Agenda states, the decent work concept has led to an international consensus that productive employment and decent work are key elements to achieving poverty reduction.
- There cannot be a decent work ethos without a living wage as the standard for work remuneration.
- There will not be any real progress in the true sustainability of people and planet –reversing environmental degradation and significantly reducing poverty– if there is no sustained growth, in that period, in the South's quality of life, through the gradual closing of the North–South wage gap; attacking, in this way, one of the main causes of poverty, and pursuing concurrently sustainable development –rationally reducing consumption in the North and increasing it to dignified levels in the South, thus reducing our ecological footprint on the planet.
- This entails that equal pay for equal work in the North-South context –of a living wage quality– will meet at a point in the long-term future where the human footprint on the environment will be substantially lower than it currently is.

5. Concept of living wage using PPPs

- The concept of a living wage using PPPs is straightforward. To determine real wages –in terms of purchasing power– of any country in question, the PPPs of this country are applied to nominal wages. These are the real wages for each country.
- Purchasing power parities reflect the amount in dollars required in a given country to have the same purchasing power that $1 U.S. has in the United States; e.g.: if the PPP index in one country is 69, then $0,69 are required in that country to buy the same that $1 buys in the U.S.; thus, the cost of living is lower. If the PPP were to be higher than 100, say 120, then $1,20 is required in that country to buy the same that $1 buys in the U.S.; the cost of living is, thus, higher.

- To calculate a living wage, the real wage of a specific category of U.S. workers is used as the benchmark, and the PPP of a country in question is then applied to the U.S. wage.
- This provides the equivalent living wage that a worker in the country in question should be earning in order to be at par –in terms of purchasing power– to the material quality of life enjoyed by the equivalent U.S. worker. This is the equalised wage in terms of purchasing power.
- In this way, the comparison with the actual real wage of the country in question exposes the gap –in real terms– between the current real wage of the worker of the country in question and the living wage it should be earning, to be equally compensated in terms of PPPs.
- In practice, since the PPPs vary annually –due to the dynamics of economic forces– the pace of the gradual equalisation of wages, through small real-wage increases, needs to be reviewed annually.
- The difference between the real wage of a subsistence quality of life nature and the equalised wage of a dignified nature is the amount that originally belongs to workers but that employers perversely keep to increase their profits and shareholder value.
- It must be pointed out that this rationale does not even take into consideration that the neoliberal paradigm of staunch support for supply-side economics has consistently depressed, for three decades, the purchasing power of real wages in the U.S. –the benchmark country for wage equalisation. This has been attempted to be resolved by women joining the work force and, fictitiously, through over indebtedness, which eventually brought us down to the great implosion of capitalism in 2008. In this way, this equalisation analysis is made in the context of a course set forth during three decades of global depression of real wages in favour of international financial capitalism.

6. A real example in 2006 (table 1)

- Equivalent manufacturing employees in China nominally earned only $0,81 an hour, which in real terms amounts to $1,89, or barely 6% of what they needed to make to be compensated at par with their U.S. counterparts in terms of purchasing power,

Table 1: Nominal wage, real wage and wage equalisation for manufacturing employees in purchasing-power parity terms

2006	Nominal hourly wage	PPP 2006	PPP Real wage	Equalised nominal hourly wage	Equalisation index
United States	$29,98	100	$29,98	$29,98	100
Canada	$29,27	101	$28,96	$30,30	97
	98%		97%	101%	
Mexico	$3,72	66	$5,64	$19,77	19
	12%		19%	66%	
China	0,81	43	$1,89	$12,85	6
	3%		6%	43%	

- While the cost of living in China in 2006 –in PPP terms– was 43% of the U.S., the six equalisation index exposes a gap of 94%, for Chinese employees needed to earn nominally $12,85 an hour (43% of U.S. wages) to enjoy an equivalent wage in real terms of purchasing power,
- Comparatively, equivalent Mexican manufacturing employees earned only $3,72/hour, which amounts to scarcely 19% of what was required in real terms for them to enjoy a living wage with a purchasing power equalised with

that of their U.S. counterparts. Nominally, Mexicans needed to earn $19,77 an hour to be at par with the U.S, since the cost of living in Mexico in 2006 was $0,66 for each $1 in the U.S. or 66%,

- In contrast, Canadian manufacturing employees' hourly real wages were almost equalised with those of their U.S. counterparts, since they amounted to 97% of what was needed to be at par with U.S. equivalent wages.

❖ *China's living-wage gap record for all manufacturing employees 2002 - 2006*

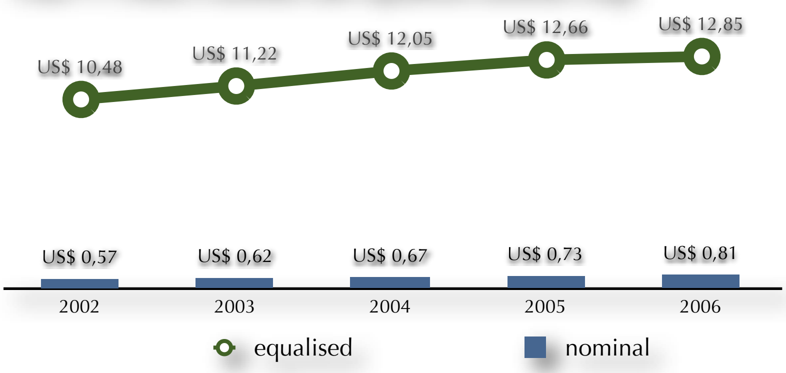
To position China's real wages –vis-à-vis its counterparts in the United States– comparative data that the U.S. Department of Labour reports for the wages of all manufacturing employees is used, analysing the course followed by Chinese wages during the 2002-2006 period.[11]

Table 2: Living-wage gaps of all manufacturing employees in China in PPP terms 2002-2006

		2002	2003	2004	2005	2006
Benchmark	1. U.S. Hourly Manufacturing Employees Rate	27,01	28,18	28,94	29,74	29,98
China	GNI PPPs in country currency (Yuan)	3,220	3,321	3,419	3,464	3,403
	Exchange rate	8,298	8,339	8,209	8,137	7,9383
	GNI PPPs in US Dollars	$0,39	$0,40	$0,42	$0,43	$0,43
	2. Equalised PPP nominal compensation US $	**$10,48**	**$11,22**	**$12,05**	**$12,66**	**$12,85**
	3. Actual Real compensation US $	**$1,47**	**$1,56**	**$1,61**	**$1,71**	**$1,89**
	4. Actual Nominal compensation US $	**$0,57**	**$0,62**	**$0,67**	**$0,73**	**$0,81**
	Compensation Deficit in US $ (2 minus 4)	**$9,91**	**$10,60**	**$11,38**	**$11,93**	**$12,04**
	Wage Equalisation index (4÷2 or 3÷1)	**0,054**	**0,055**	**0,056**	**0,058**	**0,063**

As shown in table 2, in the five-year period assessed, Chinese real wages improved an average of 6,5% (actual real compensation). This was possible for, whilst U.S. wages increased an average of 2,7% annually and the cost of living (GNI PPPs) in China grew by an average of 2,5% during the period, Chinese nominal wages did so by 9,2% (actual nominal compensation). Yet, the gap is so enormous that the pace to cancel the gap is rather slow, and it would take several generations to accomplish it, if at all. Chart 1 illustrates the dramatic gap between Chinese actual nominal compensations and the equalised nominal wages required to be compensated with a living wage at par with U.S. equivalent wages for all employees working in the manufacturing sector. In fact, nominally, the living-wage gap grew from $9,91/hour to $12,04/hour between 2002 and 2006, albeit the equalisation index improved almost one point, from 5,4 to 6,3 as illustrated in table 2.

Chart 1: China's nominal and equalised nominal wage

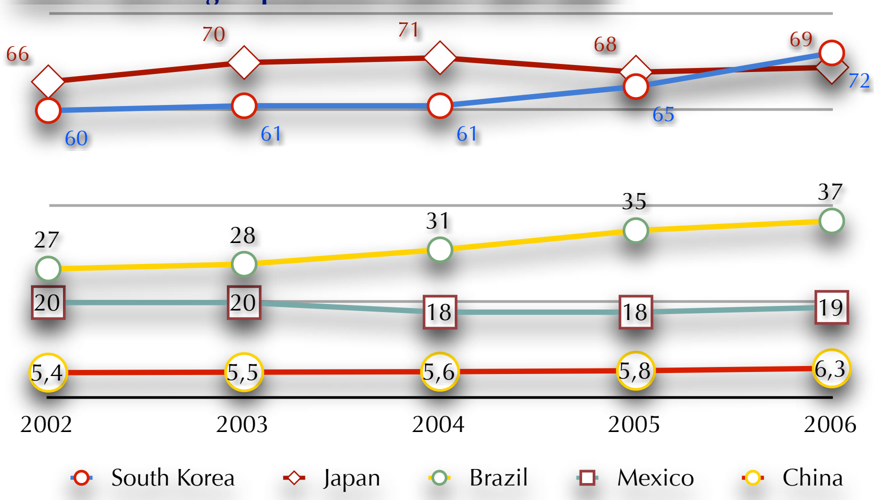


Comparatively, Chinese wages in the manufacturing sector for all employees are at the bottom of the scale, when compared with South Korea and Japan or vis-à-vis Brazil and Mexico, the two major economies in Iberian America. Chart 2 illustrates the dramatic distance between South Korea's and Japan's equalisation indices of 72 and 69, respectively, in 2006, and the minuscule six index recorded for Chinese real wages for the same year. As for Brazil and Mexico, Chinese PPP real wages are still a long distance below Brazil's 37 index and Mexico's 19 index recorded in

[11] For a detailed description of Table 2, see appendix.

2006. Furthermore, South Korea's and Brazil's PPP real wages are improving at a much faster pace than China's, particularly between 2004 and 2006. For the entire 2002-2006 period, South Korea's index improved 20% (60 to 72), Brazil's index grew 37% (27 to 37), while China's grew by only 16,7%. However, in 2007 alone, South Korea's equalisation index (China's wages for 2007 are not yet available) grew 11% (from 72 to 80 index).[12] Only Mexico's equalisation index for all manufacturing employees has remained flat since at least 1996, when it recorded 20 points. Yet at the current pace China is reducing its living-wage gap with the U.S., it would take about thirty years to be at par with Mexico's, and only under stable inflationary conditions in China, the U.S. and Mexico, and only assuming Mexico's economic ethos maintains the same policy of real wage pauperisation it has imposed for three decades in the manufacturing sector.[13] That is, only if Mexico real wage equalisation index with the U.S. remains flat at 19 or 20 points.

Chart 2: Real wage equalisation indices 2002-2006



❖ *Projections of China's real wage in the manufacturing sector*

Using as the benchmark the manufacturing wages for all employees in the U.S. in 2006, charts three and four illustrate the time span required to close the real wage gap between Chinese workers in the sector and their U.S. counterparts, in PPP and dollar terms, at different average hourly nominal wage increases. The first projection is made assuming that the annual average growth rate of nominal wages (9,2%) remains the same (status quo projection) as that experienced between 2002 and 2006. The second projection estimates the average rate increase required to close the living-wage gap in thirty years. Both projections are made assuming stable global economic conditions. This would be reflected in relatively low inflation rates not just for the U.S. and China, but also for the entire world. This would still include a strong sustained growth of China's economy throughout the period, clearly above the world's average. As earlier noted, this is, to be sure, an optimistic assumption, given the inherent instability of the system, which will tend to increase as long as governments refuse to regulate the market and insist on ceding control of the real economy to the speculative culture of the institutional investors of the fictional economy. Yet, despite the absolute certainty of boom and bust periods both in China and globally, the projection assumes that China's economy will continue to grow strongly, on average, clearly above the world's average, albeit decidedly at a lower rate than the 10,3% average recorded between 1991 and 2008.

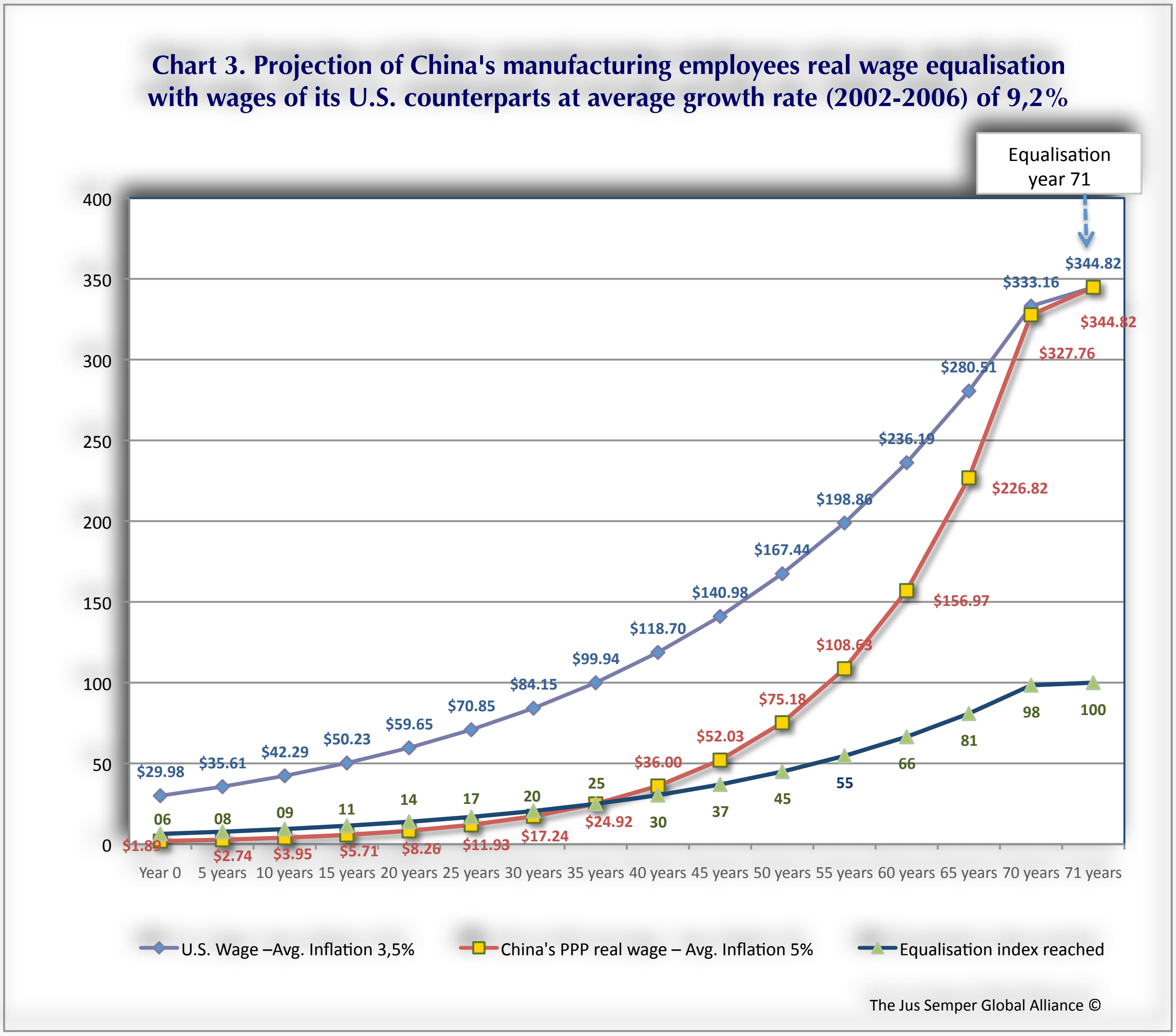
1. Criteria used in the first projection (status quo):

- Average U.S. consumer price index (CPI) (inflation): 3,5% (currently at 2%).
- Average Chinese CPI: 5% (currently at 3,1%).
- Average nominal increase of Chinese wages of 9,2% in dollar terms over the entire projection period.
- Real value of wages in the U.S. remains constant, increasing nominally by 3,5%, annually, to neutralise inflation.
- World Bank indicators recorded a PPP of $0,43 for China, equivalent to 43% of the U.S. cost of living in 2006. The nominal hourly wages for the U.S. and China were $29,98 and $0,81, respectively.
- The benchmarks –and starting point– used in this projection are the real PPP manufacturing hourly wages for both economies for the year 2006 (United States: $29,98 and China: $1,89).
- Wage figures are shown at constant prices, reflecting future purchasing power after applying inflation rates.

[12] The Jus Semper Global Alliance: Wage gap charts for Group of Seven (G7) largest economies and other selected economies, including "emerging" economies with available wage and PPP data (1975-2007).

[13] The Jus Semper Global Alliance: Wage Gap Charts for Mexico vis-à-vis selected developed and emerging economies, with available wage and PPP data (1975-2007), January 2010.

This projection assesses what would happen in the future to manufacturing wages as China raises nominal hourly wages in dollar terms at the same rate of 9,2% of the 2002-2006 period. This analysis uses as its source the nominal wage data reported by the U.S. Department of Labour.[14] Moreover, to calculate the cost of living and the size of the wage gap, the 5% and 3,5% inflation rate for China and the U.S., respectively, are applied annually starting from the PPPs reported in the World Bank's development indicators for 2006. Specifically, this analysis uses as its benchmark the differential between GNI (Gross National Income) and PPP GNI for China, generated by the World Bank's economic indicators database for 2006.[15] This data derives in turn from the Bank's 2005 International Comparisons Programme (ICP); the most recent of the eight rounds completed up to now for PPP estimates for the major components of countries' gross domestic product (GDP). The benchmark data for 2006 is shown on table 2 on page eight.



2. Results of status quo projection:

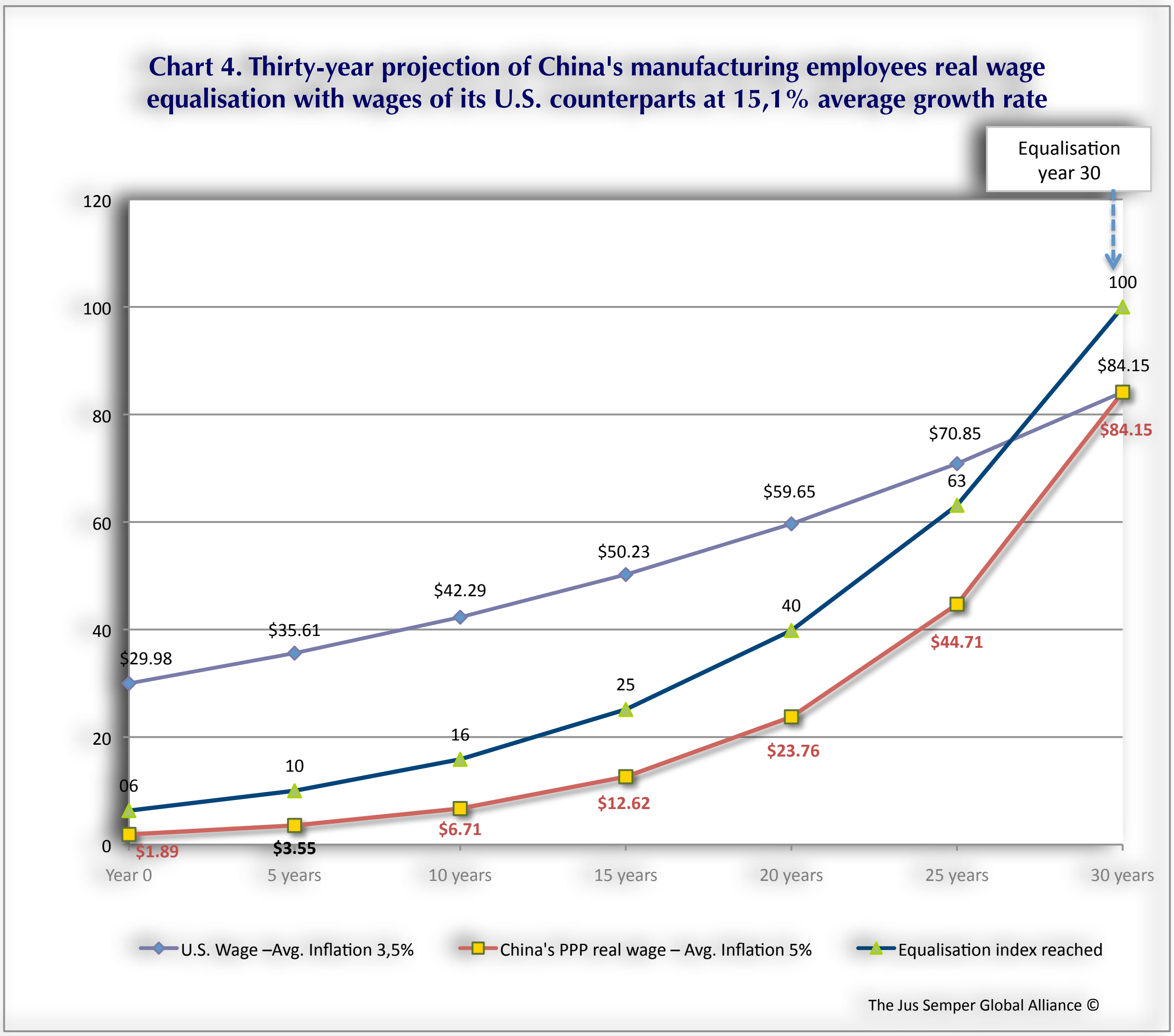
- Results, as shown in chart 3, indicate that, at the current pace, it would take China 71 years to close the wage gap of all its manufacturing employees with their counterparts in the U.S. after applying the criteria previously described.
- Every year, nominal wages in China were increased by 9,2% for 70 years.

[14] United States Department of Labour: Hourly Compensation Costs for Production Workers in Manufacturing (34 Country Tables), updated on March & November 2009. U.S., Bureau of Labour Statistics.
[15] The World Bank: World Development Indicators Online (WDI) database, 1975-2008 (GNI and PPP GNI, Atlas Method).

- ➡ Chart shows the behaviour of real wages for both the U.S. and China over the 71 period.
- ➡ For year 71, wages only needed to increase by 6,73% to fully close the living-wage gap.
- ➡ Not shown on the chart, the projection made China's cost of living higher than in the U.S. starting in year 60. This would make Chinese PPPs by year 71 a 119 index, or 18,8% more expensive than the cost of living in the U.S. Accordingly, Chinese nominal wages would be 18,8% above U.S. wages, whilst real wages would be equalised.
- ➡ Closing the wage gap would cover the 2007 to 2077 span of time.

3. Criteria used in the thirty-year projection:

- Average U.S. consumer prices index (CPI) (inflation): 3,5% (currently at 2%).
- Average Chinese CPI: 5% (currently at 3,1%).
- Real value of wages in the U.S. remains constant, increasing nominally by 3,5%, annually, to neutralise inflation.
- World Bank indicators recorded a PPP of $0,43 for China, equivalent to 43% of the U.S. cost of living in 2006. The nominal hourly wages for the U.S. and China were $29,98 and $0,81, respectively.
- The benchmarks –and starting point– used in this projection are the real PPP manufacturing hourly wages for both economies for the year 2006 (United States: $29,98 and China: $1,89).
- Wage figures are shown at constant prices, reflecting future purchasing power after applying inflation rates.



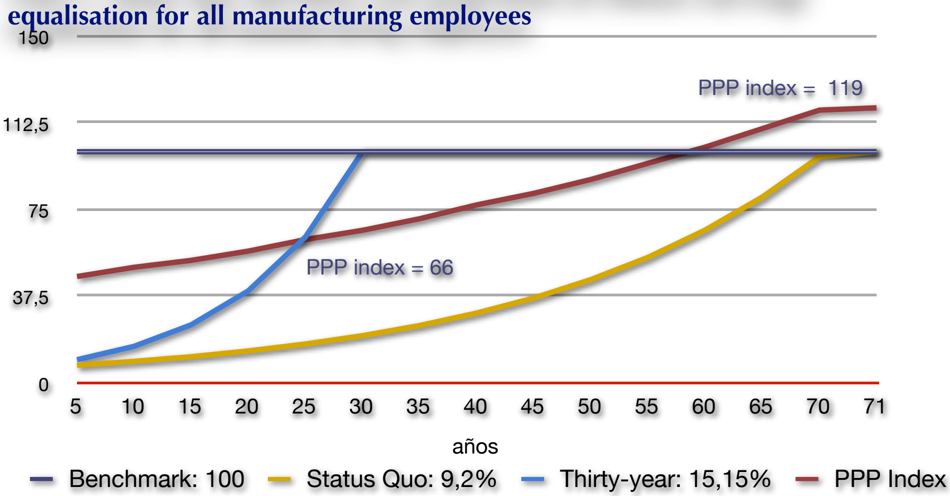
This projection uses as data the same sources of the U.S. Department of Labour –for nominal wages– and the World Bank –for PPPs– used in the statu quo projection.

4. Results of thirty-year projection:

- ➡ Results, as shown in chart 4, required an annual rate increase of nominal wages of 15,12% to close China's wage gap of all its manufacturing employees with their counterparts in the U.S., in the span of thirty years, after applying the criteria previously described.
- ➡ Chart 4 shows the behaviour of real wages for both the U.S. and China over the 30-year period.
- ➡ Not shown on the chart, China's cost of living was two-thirds the cost of living in the U.S. at the end of thirty years. This would make Chinese PPPs by year 30 a 66 index, or 65,9% the cost of living in the U.S. Accordingly, Chinese nominal wages would reflect that, whilst real wages would reach equalisation.
- ➡ This thirty-year projection covers the 2007 to 2036 span of time.

Chart 5 compares the status quo and thirty-year projections. As could be expected, the difference in the annual wage increases applied generates a dramatic difference in the time span required to close the living-wage gap (71 versus 30 years respectively). Similarly, the difference in cost of living between both projections –at the point in time when equalisation is accomplished– is dramatic (status quo: 119 versus 30-year: 66). This is due because annual inflation rates are projected to be higher in China than in the U.S. in both projections; thus costs of living in China would surpass those in the U.S. in year 60, as previously noted.

Chart 5. Status Quo and Thirty-year projections of Chinese real wage equalisation for all manufacturing employees



❖ *Summing up*

✦ ***Not a forecasting analysis.*** These projections at no time pretend to forecast what would be the inflationary indices or the rates of wage increases that will occur in China in the future. For this paper, the average behaviour of these indicators has been established in a discretionary manner –based on the data recorded in the last few years– with the only purpose of projecting two different scenarios under these assumptions to derive a comparative analysis to the closing of China's living wage gap.

✦ ***An overwhelming living-wage gap.*** Parting from TLWNSI's living wage concept, the two projections in this assessment expose, comparatively, the dramatic gap that currently exists between the real wages paid, on average, to all manufacturing employees in China and the nominal wages that would constitute a living wage in real terms. This gap is dramatically wider than those prevalent in the two largest East Asia economies of Japan and South Korea, and still quite wider than those in some of the so-called emerging markets in other regions, such as Brazil and Mexico.

✦ ***Overwhelming speculative environment will require higher wage increases than those recorded.*** Assuming that nominal wages in the manufacturing sector in China continue to appraise at the rate of 9,2% recorded during the 2002-2006 period, it would take almost three-fourths of a century to close China's wage gap with its U.S. counterparts, under the assumptions applied in the first projection. This event, as said earlier, is unlikely, albeit not impossible, to occur, for the market system is inherently unstable and prone to move in the future through recurring periods of booms and busts. Moreover, this natural tendency is likely to be all the more exacerbated as the global capitalist system becomes overwhelmingly dominated by the speculative culture of the institutional investors, and as long as governments continue to refuse addressing the systemic causes of this instability. An uncertainty that, to be sure, will continue to increase and generate enormous moral hazard worldwide unless governments harness tightly the financial markets' speculative practices to protect their brick and mortar economies. In this way, inflationary rates are likely to be higher than my assumption; thus annual wage hikes will need to increase accordingly – and not at the current average– only to close the living-wage gap in not more than the 71 years required in the first projection. The second projection –set to close the wage gap in the span of thirty years– would suffer less instability. Simply, by carrying it out in a span almost two-thirds shorter than in the first projection, it would be exposed to fewer periods of recession and expansion. Yet, as in the first scenario, inflation is likely to be higher than assumed here, thus wage hikes required to close the living-wage gap in thirty years are likely to be higher than projected.

- ***Closing a living-wage gap requires annual hike adjustments in line with inflationary trends.*** To realistically close its living wage gap, under any scenario, China would need to determine real wage increases on an annual basis, based on the actual inflationary rates that its economy experiences, so that the rates of increase are adjusted annually accordingly. China would first need to set a time span to accomplish this goal. Thus, once the time table is set, the projected average wage hike required to close the gap in the time span established would need to be adjusted annually to offset the previous year inflation. This is the methodology of TLWNSI's living-wage concept, with a thirty-year time span, equivalent to one generation, which represents a rather reasonable gradualist approach to address the issue. As previously referenced, Brazil launched in 2010 a minimum-wage appreciation program, until 2023, that closely resembles TLWNSI's methodology.

- ***An unlikely event vis-à-vis the geopolitical economics involved.*** The likelihood that China's future economic policy will integrate a reasonable long-term plan of thirty years to achieve labour endowments of a living wage condition in the manufacturing sector, and elsewhere in its economy, is currently unrealistic. Although, in the last few years, Chinese real wages have been appreciating –and there is increasing evidence that China is making the development of a burgeoning domestic market a strategic priority, China's role as the largest supplier of cheap labour –under modern slave conditions– in the global capitalist system's international division of labour, does not show any signs of any significant abatement. China's major trading partners are raising pressure to force China to appreciate the value of the Yuan, which they regard as artificially cheap. In response, China has of lately increased its flexibility, which will tend to increase its value –albeit not necessarily its purchasing power.[16] Yet China's development policies are still staunchly anchored on offering the traditional centre-periphery comparative advantages, namely cheap labour. Furthermore, given that multinationals –from the very same countries that are pressing China to appreciate the yuan– will continue to seek the barest possible labour endowments in China and elsewhere, China's is unlikely to give up on such "business opportunities" in the near future. It is more likely that it will gradually appreciate wages in line with the market logic of economic growth of its fledgeling middle class –since this will decrease its exports of labour at modern slave work prices– than in line with a specific plan to gradually equalise wages with its major trading partners for reasons of social justice and sustainability.

- ***Race to the bottom will continue.*** In the meantime, the weight of China's huge labour pool will continue to exert strong downward pressure on the wages of other developing economies that are dependent on centre-periphery relationships that partner to jointly exploit the labour and natural resources of the countries in question, for their very private interests.

- ***The market reigns supreme over the lives of Chinese society.*** Above all, China is not by any means a democracy. Henceforth, as it gradually mutates into a market-based society, it is joining all others in making marketocracy the supreme ruler of the lives of every member of society. Thus, undoubtedly, the greed of domestic and global institutional investors will increasingly dictate the social agenda.

❖ Afterword

It should be pointed out that the vision of appreciating the real wages of any society that endures misery wages of modern slave work conditions, must be considered with prudence. TLWNSI's approach to providing a living-wage ethos to exploited workers is made on the context of long term sustainability. Closing the living wage gap of any country –with no other consideration than dispensing the same purchasing power that is currently enjoyed by equivalent workers in developed economies– is unsustainable, for the simple reason that many critical resources are running scarce and the

[16] The Economist: The yuan unpegged – Learning to crawl, 24 June 2010.

human footprint on the planet may have already crossed a threshold of no return to previous conditions. Consumption levels in the developed world are leaving an unsustainable environmental footprint, as a great diversity of qualified voices have ineffectively alerted us. Such is the case, that wage equalisation for the equalisation of standards of living between developed and developing economies –in the context of the market– cannot be a long-term objective. The final goal proposed by TLWNSI must be a sustainable growth that reduces consumption and the human footprint in a radical manner. This requires a new definition of development and progress that parts completely from capitalism (and GDPism). The culture of exacerbated consumerism –to boost shareholder value– must be replaced by a culture that has, as its sole purpose, the procurement of dignified levels of social wellbeing, yet permanently sustainable. To this endeavour, the quality of life of developing countries must be improved sensibly –whilst inequality is eliminated– and consumption levels in developed countries must decrease substantially until they reach a dignified but sustainable ethos. Increasingly, arguments are raised in favour of stationary paradigms of no economic growth in themselves (Haribey, La Touche, Custers, Stoll). Yet, we are still far from agreeing on a common idea of development for the future. For this to become possible, the cooperation of all countries, particularly the metropolises of the system, is needed. Unfortunately, the vast majority of governments are under the aegis of the owners of savage capitalism: the institutional investors and their corporations. Thus, so far, governments have consistently disregarded any change of paradigm, as we are witnessing in a myriad of instances in every region of the world.

Consequently, as long as we are unable to be in agreement, the civil societies of developing countries –emerging and all others– continue to be compelled to provide their workers with living wages within the current market context, through the concept of gradual wage equalisation, as proposed by TLWNSI. This concept must take as its benchmark the wage remunerations of the developed world for all the reasons previously presented. In the last decades some economies (South Korea and Spain) have succeeded in transforming the wage remunerations into living wages. However, Brazil is the first case that serves as hard evidence –hardly improvable– that TLWNSI's conceptual framework is clearly realistic when there is the political will of the State. Thus, all China needs to do to gradually close its living-wage gap is completely dependent on the political will of its rulers. Yet, I must insist, equalising consumption levels between China, or any other developing economy and the developed world –at its present level of consumption– is not a sustainable and responsible approach. True sustainability requires a drastic change of paradigm so that consumption levels both North and South meet at a point where our footprint provides a dignified quality of life, but with a much lower (efficient) level of consumption that guarantees long-term sustainability.

Useful links:

- http://www.jussemper.org
- Bureau of Labour Statistics: http://www.bls.gov/fls/home.htm
- World Bank – World Development Indicators: http://data.worldbank.org/indicator
- World Bank – International Comparisons Programme: http://siteresources.worldbank.org/ICPEXT/Resources/ICP_2011.html

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- The Jus Semper Global Alliance: The Living Wages North and South Initiative (TLWNSI). A strategic program to commit the private sector (Working draft 2006)
- The Jus Semper Global Alliance: Wage gap charts for Group of Seven (G7) largest economies and other selected economies, including "emerging" economies with available wage and PPP data (1975-2007).
- The Jus Semper Global Alliance: Wage Gap Charts for Spain vis-à-vis selected developed and emerging economies, with available wage and PPP data (1975-2007), January 2010.
- Álvaro J. de Regil: Business and Human Rights: Upholding the Market's Social Darwinism. The Jus Semper Global Alliance, October 2008.
- Paul Schreyer and Francette Koechlin: Purchasing Power parities – Measurement and Uses, OECD Statistical briefs, March 2002.
- U.S. Department of Labour, Bureau of Labour Statistics, October 2009: International Comparisons of Hourly Compensation Costs for Manufacturing Production Workers, March and November 2009.

- U.S. Department of Labour, Bureau of Labour Statistics: International Comparison of Manufacturing Productivity and Unit Labour Cost trends, October 2009.
- U.S. Department of Labour, Bureau of Labour Statistics: Comparative Real GDP per Capita and per Employed Person, Fourteen Countries 1960-2008, July 2009.
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- World Bank: Global Purchasing Power Parities and Real Expenditures. International Comparison Programme, 2005.

Appendix:

The Jus Semper Global Alliance – Table T7 – Living-Wage-Gap Analysis of All Manufacturing Employees in China in Purchasing Power Parities Comparison Terms 2002-2006

Comparisons of hourly wages for all manufacturing workers (blue & white collar) between the US, China, Japan, South Korea and the two major Iberian-American economies indicate that, China's living-wage gaps are dramatically larger, even vis-à-vis Mexico, the country with the second widest wage gap with its U.S. counterparts.

		2002	2003	2004	2005	2006
Benchmark	1. U.S. Hourly Manufacturing Rate	27,01	28,18	28,94	29,74	29,98
China	GNI PPPs in country currency*	3,220	3,321	3,419	3,464	3,403
	Exchange rate	8,298	8,339	8,209	8,137	7,9383
	GNI PPPs in US Dollars	$ 0,39	$ 0,40	$ 0,42	$ 0,43	$ 0,43
	2. Equalised PPP nominal compensation US $	$ 10,48	$ 11,22	$ 12,05	$ 12,66	$ 12,85
	3. Actual Real compensation US $	$ 1,47	$ 1,56	$ 1,61	$ 1,71	$ 1,89
	4. Actual Nominal compensation US $	$ 0,57	$ 0,62	$ 0,67	$ 0,73	$ 0,81
	Compensation Deficit in US $ (2 minus 4)	$ 9,91	$ 10,60	$ 11,38	$ 11,93	$ 12,04
	Wage Equalisation index (4÷2 or 3÷1)	0,054	0,055	0,056	0,058	0,063
South Korea	GNI PPPs in country currency*	751,642	748,141	782,694	760,404	732,280
	Exchange rate	1250	1192	1145	1024	954,4
	GNI PPPs in US Dollars	$ 0,60	$ 0,63	$ 0,68	$ 0,74	$ 0,77
	2. Equalised PPP nominal compensation US $	$ 16,24	$ 17,69	$ 19,78	$ 22,08	$ 23,00
	3. Actual Real compensation US $	$ 16,30	$ 17,24	$ 17,61	$ 19,26	$ 21,62
	4. Actual Nominal compensation US $	$ 9,80	$ 10,82	$ 12,04	$ 14,30	$ 16,59
	Compensation Deficit in US $ (2 minus 4)	$ 6,44	$ 6,87	$ 7,74	$ 7,78	$ 6,41
	Wage Equalisation index (4÷2 or 3÷1)	0,60	0,61	0,61	0,65	0,72
Japan	GNI PPPs in country currency*	152,637	138,546	134,186	138,206	136,632
	Exchange rate	125,2	115,9	108,2	110,1	116,3
	GNI PPPs in US Dollars	$ 1,22	$ 1,20	$ 1,24	$ 1,26	$ 1,17
	2. Equalised PPP nominal compensation US $	$ 32,93	$ 33,69	$ 35,89	$ 37,33	$ 35,22
	3. Actual Real compensation US $	$ 17,84	$ 19,83	$ 20,63	$ 20,36	$ 20,70
	4. Actual Nominal compensation US $	$ 21,75	$ 23,71	$ 25,59	$ 25,56	$ 24,32
	Compensation Deficit in US $ (2 minus 4)	$ 11,18	$ 9,98	$ 10,30	$ 11,77	$ 10,90
	Wage Equalisation index (4÷2 or 3÷1)	0,66	0,70	0,71	0,68	0,69

		2002	2003	2004	2005	2006
Benchmark	1. U.S. Hourly Manufacturing Rate	27,01	28,18	28,94	29,74	29,98
Mexico	GNI PPPs in country currency*	6,184	6,576	7,285	7,122	7,196
	Exchange rate	9,663	10,79	11,29	10,89	10,91
	GNI PPPs in US Dollars	$ 0,64	$ 0,61	$ 0,65	$ 0,65	$ 0,66
	2. Equalised PPP nominal compensation US $	$ 17,29	$ 17,17	$ 18,67	$ 19,45	$ 19,77
	3. Actual Real compensation US $	$ 5,38	$ 5,51	$ 5,18	$ 5,46	$ 5,64
	4. Actual Nominal compensation US $	$ 3,44	$ 3,36	$ 3,34	$ 3,57	$ 3,72
	Compensation Deficit in US $ (2 minus 4)	$ 13,85	$ 13,81	$ 15,33	$ 15,88	$ 16,05
	Wage Equalisation index (4÷2 or 3÷1)	0,20	0,20	0,18	0,18	0,19
Brazil	GNI PPPs in country currency*	1,253	1,248	1,238	1,167	1,185
	Exchange rate	2,921	3,075	2,926	2,435	2,174
	GNI PPPs in US Dollars	$ 0,43	$ 0,41	$ 0,42	$ 0,48	$ 0,54
	2. Equalised PPP nominal compensation US $	$ 11,58	$ 11,44	$ 12,24	$ 14,25	$ 16,34
	3. Actual Real compensation US $	$ 7,16	$ 7,93	$ 9,01	$ 10,46	$ 10,99
	4. Actual Nominal compensation US $	$ 3,07	$ 3,22	$ 3,81	$ 5,01	$ 5,99
	Compensation Deficit in US $ (2 minus 4)	$ 8,51	$ 8,22	$ 8,43	$ 9,24	$ 10,35
	Wage Equalisation index (4÷2 or 3÷1)	0,27	0,28	0,31	0,35	0,37

***Definitions:**

– PPPs stands for Purchasing-Power Parities, which reflect the currency units in a given currency that are required to buy the same goods and services that can be purchased in the base country with one currency unit. This analysis uses the U.S. and the U.S. dollar as the benchmark and assumes that the U.S. wage is a living wage.
– GNI (Gross National Income) PPPs in country currency express the number of country currency units required to buy the same goods and services a U.S. dollar can buy in the U.S.
– Exchange rate is nominal exchange rate.
– GNI PPPs in U.S. Dollars expresses the U.S. dollar units required in a given country to buy the same goods and services a U.S. dollar can buy in the U.S. If the PPP is less than 1, a U.S. dollar can buy more in the country in question because the cost of living is lower, and viceversa.
– The GNI PPP, expressed in national currency, reflects the exchange rate in comparison with the market exchange rate, which does not reflect the ratio of prices.
– Equalised PPP nominal compensation is the hourly U.S. dollar nominal rate required to equally compensate a worker in a country, in purchasing power terms, for equal work rendered, as the equivalent U.S. worker is compensated. This analysis assumes the U.S. wage to be a living-wage. A living wage is a human right in accordance with Article 23 of of the UN Universal Declaration of Human Rights. ILO's Convention 100 of "equal pay for equal work", for men and women is hereby applied in a global context.
– Actual Real Compensation is the hourly wage paid in a given country in purchasing power terms (real wage).
– Actual Nominal Compensation is the nominal hourly wage paid in a given country.
– Compensation deficit expresses the wage gap between the hourly nominal rate paid (4) and the equalised PPP hourly rate that should be paid for equal work (2).
– Wage equalisation index expresses the ratio of actual nominal pay to equivalent PPP hourly pay (4 between 2): or the ratio of actual real pay (3) to the hourly nominal pay benchmark (1) (3 between 1).
– Note: Variations in previous years are due to revisions made by the sources, including the World Bank's new 2005 PPP benchmarks, which replaced the previous 1993 benchmarks. According to the World Bank, the 2005 PPPs are the most comprehensive for developing countries since 1993, and reveal that the size of their economies were often overestimated.

Sources: The Jus Semper Global Alliance analysis using the sources below.
(Sources with X indicate that some of their data is directly incorporated in the table:)

– Data base of World Bank's World Development Indicators, 1975-2008, (GNI & GNI PPP, Atlas method)
X Hourly Compensation Costs for Production Workers in Manufacturing (34 Country Tables), updated on March & November 2009. U.S. Dept. of Labour, Bureau of Labour Statistics.
– International Comparison of Manufacturing Productivity and Unit Labour Cost trends, 2007. U.S. Department of Labour, Bureau of Labour Statistics (26 September 2008).
X Comparative Real GDP per Capita and per Employed Person, Fourteen Countries 1960-2006, 11 July 2007. U.S. Department of Labour, Bureau of Labour Statistics.
– Global Purchasing Power Parities and Real Expenditures. 2005 International Comparison Program. World Bank 2008.
X PPPs for OECD Countries 1970-2002, OECD 2002 and GDP PPPs historical series 1970-1999.
– Purchasing Power parities – Measurement and Uses by Paul Schreyer and Francette Koechlin, OECD Statistical briefs, March 2002.

❖ **About Jus Semper:** The Living Wages North and South Initiative (TLWNSI) constitutes the sole program of The Jus Semper Global Alliance (TJSGA). TLWNSI is a long-term program developed to contribute to social justice in the world by achieving fair labour endowments for the workers of all the countries immersed in the global market system. It is applied through its program of Corporate Social Responsibility (CSR) and it focuses on gradual wage equalisation, for real democracy, the rule of law and living wages are the three fundamental elements in a community's quest for social justice.

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❖ The responsibility for opinions expressed in this work rests only with the author(s), and its publication does not necessarily constitute an endorsement by The Jus Semper Global Alliance.