



Looming labour shortages a headache for China

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China's vast number of migrant workers -- as many as 200 million -- will begin heading back to the factories that line the country's east coast after the Spring Festival.

But as happened last year, they are not all expected to return. Instead, they will seek work opportunities closer to their homes in the west and northeast of the country. This will cause labor shortages and wage rises and is already changing the distribution of industry and urban populations across the nation.

China's once inexhaustible pool of excess labour is starting to dry up as its population ages.

At the beginning of last year there were worries that unemployment in China might start to rise. This is one of Beijing's biggest fears, as unemployment brings social instability, which the Communist Party sees as the biggest threat to its power.

The concern a year ago was that the infrastructure-driven government stimulus to stop China being dragged into the global recession would not offset the jobs lost from the export sector as the large projects triggered by government spending were not so labour-intensive.

But while unemployment edged up a few tenths of a percentage point (figures that can't really be trusted) China's export sector rebounded more quickly and strongly than many economists had expected.

Still-booming economies across the developing world were soaking up Chinese manufactured goods as demand softened in the West.

Capacity had been shut down and workers had not returned this time, after many years of making the long train journey from places like Sichuan province -- home to 90 million people -- to the factories of Guangdong, Zhejiang and Tianjin. As well, much of Beijing's stimulus package had focused on the less-developed western and northeastern provinces.

The quick reboot in the export sector led to wages demands, many around 20 per cent or more.

China's policymakers are keen, for social stability and structural economic reasons above all, to close the gaping and growing gap between the country's rich and poor, and minimum wage rises have already been announced this year.

Economists are expecting annual wages rises of 15-20 per cent in coming years as Chinese consumers catch up with extraordinary economic growth.

Wages are not the only concern of China's underpaid labourer. As underscored by the alarming spate of suicides at gargantuan electronics manufacturer Foxconn last year, conditions in many parts of the Chinese economy are appalling.

In addition to the daily grind of a poor or monotonous workplace environment, migrant workers often see their families only once a year, during the Spring Festival.

Many, if they are on full-time contracts, get just five days annual leave, in addition to the week-long breaks for Spring Festival, and National Day in October.

Under China's outmoded registration system, known as hukou, they are denied the social services of city dwellers living in their town of birth.

Housing has become unaffordable for laborers. Along with developing a better health, social security and education safety net for ordinary Chinese people, better wages are a key element to boosting domestic consumption.

These, in turn are crucial to righting the global economic imbalances that are slowing the international recovery.

A growing labor shortage will also lead to wage growth in China.

One of the big questions exercising academics inside and outside China is the timing of the Lewis Turning Point -- when wages in industrializing countries begin to rise quickly as the supply of surplus labor from the countryside runs out.

All indications suggest that point is about now. Exacerbating the evaporation of the excess labor pool, China's population is about to start ageing. Estimates of when range from last year to 2014, as the one-child policy and concomitant birth rate below the natural replacement rate starts to affect its huge population base.

In a paper released last week, Standard Chartered economist Stephen Green echoed the views of many: "Official statistics say that China has 300 million urban workers, an unemployment rate of 4.1 per cent and the economy created 11.7 million jobs in 2010 . . . no one should take these numbers too seriously."

Official statistics ignore the migrant worker population -- Green's estimate is 180 million -- as well as jobless urban residents who are not registered.

In fact, Green, drawing on the work of China Academy of Social Science researchers Du Yang and Wang Meiyuan, concludes that the Chinese economy actually created 25 million jobs last year -- more than double the official number. Green also concludes that China is creating jobs faster than the population is creating new workers.

For both that reason and simple economics, China's manufacturing sector is planning to move factories inland, where wages are lower, and to countries such as Vietnam and Bangladesh. The labour problem points to a lower growth rate for China, but the flip side is that, along with a better education workforce, it will also drive productivity improvements.

These are critical for the new Five Year Plan, to be unveiled next month. As with most policy decision in China's fragile but still go-go economy, it's about treading a fine line.

Wages need to rise for supply and social equity reasons but if they go up too quickly, inflation, at present the biggest of many economic headaches, will add to the problems.

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