

# The End of the Chinese Labour Market as We Know It<sup>1</sup>

Stefan Gardawski\*

## Abstract

*This paper provides a concise account of the field research conducted among public and private sector managers and entrepreneurs in the continental China. The author shares his personal experiences accumulated over several years through direct contacts and interactions with the Chinese business community, which as he explains is very diverse in their social, educational, professional background, as well as their attitudes and behaviour. The experiences are reinforced by the series of loosely structured face-to-face interviews the author completed with his Chinese business partners in the spring of 2012.*

The rapid development of China's economy and society in the last 30 years is an undeniable fact which is closely watched and commented on all over the world. Capitalistic economy, state run bank system and a society living under authoritarian Communist Party of China rule are the basis of unique system created by the decision-makers in Beijing. It gave a way of unprecedented GDP growth of roughly 10% a year for nearly two decades, largely powered by exports. China has now the second largest

---

<sup>1</sup> Submitted in January 2012.

\* Private entrepreneur, superstef22@yahoo.com

economy after the United States and the highest exports level by value (if not counting the EU countries as one entity) in the world.

However in the last few years some major changes have been taking place in China. Anyone doing business with China's companies has surely noticed appreciation of Chinese currency – the Yuan. Exchange rate always tightly controlled by stated bank system now is being 'loosened up' and as result we can observe a steady increase in its value. In a recent move the People's Bank of China widened the Yuan's trading margin against the US dollar to 1% above and below daily reference trend China's trade imbalance (with exports greatly surprising imports) has been slowly shifting. In March of 2012 China's customs bureau declared that in February country experienced a trade deficit of \$31,5 million. Chinese New Year's holidays in January have contributed to this drop of exports but of course this cannot be the only explanation of this phenomenon (China's economy 2012). Other, rather symbolic change has occurred in 2007 when one of the largest and most important trade fair's in the world Chinese Export Commodities Fair (also known as Canton Fair) was renamed to China Import and Export Fair.

These two seemingly unrelated developments indicate that some major change is occurring – China is altering its development path. Its economy is adjusting and preparing for a new role – the global economic leader, which means Chinese do not want only to be the biggest producer in the world but also one of the biggest consumers as well. For this more equalized trade balance is needed as well as stronger and fairly easily exchangeable currency is required.

Now, let's focus on something that is right in the middle of Chinese economic turnaround – China's workforce. Much of China's economic success can be attributed to China's workforce which is well known for its virtues. It is often praised for being obedient and willing to work strenuously. What's more prominent – it was always considered abundant and uncounted for. By European standards China has an enormous workforce which consists of over half a billion people, however only 155 million are under 30 years old. One reason for this is that more and more young Chinese pursue university education and therefore postpone their entry into the labour market (More 2011). Secondly the infamous one-child policy is taking its toll on Chinese demographic structure. The problem of aging society does not only worry European politicians but also concerns Communist Party officials in Beijing. Their other concern is the current world economic crisis. With turbulent circumstances outside the country and many social tensions inside major transformation of labour force structure is a risky scenario. So how are these latest developments influencing

Chinese workers? How are workers perceived by their employers? What do local businessmen think of Chinese labour market? And finally what lies ahead of these recent developments?

I will try to give some answers to these questions. My knowledge of this matter is not based on any scientific research but rather on conversations which I held with Chinese factory managers and owners and on my own observations. Due to my job character I stay in touch with several Chinese businessmen from two places: Shandong province located on China's north coast and highly urbanized and industrialized area of southern city of Guangzhou (also known as Canton). Obviously opinions presented in this article are not sociologically representative in anyway but I hope my position gives me a rare chance to have an inside look into China's labour market which possibly can be interesting for somebody who do not have this opportunity.

At the beginning I would like to shortly describe managers and factory owners with whom I became acquainted in China. To clarify the picture I shall divide them into two main groups of business decision-makers. First one includes people, usually 40 to 60 years old, who run state owned factories. I think they may have much in common with their counterparts who were in charge of socialistic enterprises in Eastern Europe before the collapse of the Soviet Union. Typical representative of this group knows only one language – Mandarin Chinese. They tend to be less flexible and they have hard time adjusting to new economic circumstances. Their management style can be authoritarian and they value centralized decision making process. It seems their position derives from their connections with the local Communist Party members to whom they must be loyal and obedient. It is typical for them to be inclined to tacky splendor and vivid ceremonies. Second group consists of entrepreneurs who represent rather younger generation of 30 and 40 year olds who manage privately owned companies. Educated on contemporary Chinese or Western Universities they can more or less fluently communicate in English. If however they are educated in the West (most likely in the United States), they possess something which greatly facilitates communication – western cultural code, which allows more informal relations. It seems they are more flexible and efficient at what they do at work. It is easier to make arrangements with them as they pay attention and fulfill promises, contrary to their older counterparts who specialize in platitudinal statements. Of course the picture I presented above is very simplified and may vary but it shows some general trends. Differences between old and new class of managers can be based on other variables as well. For example people from South China, which historically

was more exposed to Western influences, are more likely to belong to the second group.

Typical Chinese factory looks nothing more or less than simple rectangular building covered in small colored tiles with many rows of large windows. Usually it has 2 to 4 floors. It is almost always accompanied by another seemingly similar building which is a dormitory for factory workers<sup>2</sup>. On average labourers in China work 28–29 days a month. Workday lasts for 8 hours with reasonably long lunch break about noon. Workers get their vacation break in late January or early February during Chinese New Year, which is one of the most important Chinese holidays. Depending on a factory workers get from one to two weeks off, which they use to visit their families (one can imagine just how clogged up public transportation system becomes when hundreds of millions of people travel home at the same time). However there is a trend led by the government to increase number of official holidays during the year, for example National Day in October or Lantern Festival during Lunar month were introduced. Also in the area of working conditions there is a slow but steady improvement. More and more factories have OSH (Occupational Health and Safety) information exhibited in the working area. Workers can now secure their rights by notifying government agencies, which specialize in enforcing official terms of employment, about any kind of violations. This especially concerns situations in which workers do not get their salary in time. Most workers have work contract signed with the company which hires them, although some percentage does not, which means they are hired illegally. However as one factory owner from Shandong province put it – contract is only binding for employer. Workers do not bear any responsibility if they break it. On the other hand employer can face official consequences if for example he or she does not pay the worker their salary.

The topic of worker's salary is commonly discussed during business negotiations as it is directly connected with production costs. It is commonly acknowledged that recent rise of wages in China is an unprecedented occurrence and that it will deeply transform China's labour market. In March of 2012 *The Economist* published an article titled 'The end of cheap China. What do soaring Chinese wages mean for global manufacturing?'. There we can read that just between January 1<sup>st</sup> and March 5<sup>th</sup> of 2012 wages in China have already risen by 10%. Furthermore, in the last four years

---

<sup>2</sup> Most of Chinese factories are located in the east, near the coast. One of the most intensely industrialized area lays along the Pearl river and its delta in the southern province of Guangdong. As a result many workers from rural western and northern provinces must migrate to big cities in the south-east to find an occupation. Mobility of Chinese workforce is great and it seems most workers have no choice but to work outside of their home province.

we could observe annual increase in salaries of 20%. As this trend continues some specialists predict that approximately by 2015 Chinese wages will reach the level of American ones (Manufacturing 2012). Probably it will not happen this soon, but these calculations are not much off. How is this situation affecting business conditions in China?

Two months ago, in April of 2012, I had a chance to talk to several Chinese businessman, some of them being factory owners and some upper level managers. In every single conversation the topic of rising wages was at least mentioned, but more often it constituted the core of business negotiation. Below I will try to bring up some most interesting issues mentioned during those talks.

First I must stress that business area of my concern includes furniture and clock making, wood processing and assembly. Business adviser from Shandong province who works for an European customer explained to me that now average monthly salary of worker varies from 2000 to 2800 Yuan (about 315–440 US dollars), with an exception of a wood painter who can earn as much as 5000 Yuan (about 790 US dollars). This has to do not only with painting skills but also with the fact that painting job can be potentially hazardous for worker's health. What's interesting is that workers, whose activity includes wood polishing, cutting and product packing get paid depending on quantity which they manage to produce. Only painters get paid by work time, however from what I found piece work system is the most prevailing one in China. On the top of regular salary every month employer must pay about 400 Yuan (about USD 60) for worker's social security and medicare. This of course concerns only workers who are hired officially. The social benefit system is still under development in China and it is likely that these charges will increase in the future.

While talking to Chinese entrepreneur it does not take long to realize what the main driving forces behind wages increases are. First it is simply lack of workers. To convince people to come and work in a certain factory owners must tempt them with satisfactory income level. Secondly in the business area in which I am interested there is one more aspect which comes into consideration – work conditions, which are not exactly clean. Working with wood obviously can be messy as there is sawdust involved. In almost all conversations which I held this issue would come up. Workers consider working with wood ‘a dirty work’ and for this ‘dirty work’ they want compensation, a financial one of course. What makes all this even more difficult is the fact that there are other job openings available in different fields. For example as business adviser from Shandong province told me a worker can now find a job as a waiter in a restaurant and make as much as they would in a factory. Global economic crisis is also a factor as diminishing number of production orders puts

downward pressure on prices. Factory owners are caught between two forces, which are pulling in opposite directions. On one hand they should lower the prices to spur the demand for their goods from abroad. On the other they must constantly increase wages and therefore their productions costs. Partly solution to this situation is to shift production to domestic market orders. Chinese internal market is currently performing better than foreign markets. As part of Chinese society is becoming richer, their demand for good quality goods is increasing. It is a great opportunity for Chinese entrepreneurs and many of them are taking advantage of it. While in China, I noticed that factories which produce goods for domestic market can afford to pay a higher salary than those who just specialize in export. It is a significant example of how strong Chinese internal market demand is. Large class of prosperous citizens has a great propensity to consume luxury goods and they are willing to pay high price tag. On the front wall of a factory in Shandong province which produces high class wood products and sells them both home and abroad a large red banner hangs. It is an advertisement which encourages workers to apply for a job at wood processing and painting departments. It states that salary in the factory is between 3600–4300 Yuan (around 570–680 US dollars), which is above average in that area. Also there is a mention of government insurance which is guaranteed. Such a sight was unheard of even one or two years ago and even now it is shocking for some contemporary Chinese people as they have never seen a job advertisement hanging on a factory wall, just like that. For some employers a struggle to find workers is an everyday reality.

Lack of workers and therefore a surge of wages in China have also alternative explanations. As factory owner in Shandong province explained many local farmers loose an incentive to work after their land is bought by the government. Typically emigrants from rural areas supplied labour market, however because of the real estate boom their land is often acquired for construction projects. After such a transaction for some time rural families have their financial situation secured. In such a case they not purse employment, at least until their financial assets run out. Large money infusion can be a good starting kit for launching a small business as well. In either case rewarded farmer has many incentives to exit the industrial labour market.

I do not have any firm data on this but I was told by Chinese manager from the city of Guangzhou that recent economic development of western rural areas of China is also influencing labour market. Government infrastructural investments as well as other developments change the living standards and business environment in western provinces. Underdevelopment was one of the main forces driving many millions to the east in search of any kind of employment. Now the Chinese government is pursuing a goal of more harmonious society and trying to make rural areas more

attractive for its inhabitants. Also some business enterprises are moving inland to take advantage of roughly 5–10% lower labour costs. As a result the trade-off between working in a crowded coastal city and living in home province is not so substantial. Chinese worker may prefer living at hometown with his or her family and earning little less rather than possibly making more money in a hostile urban environment. This is most noticeable after Chinese New Year's holiday. Most of factory managers claimed that every year after the holiday about 5–10% workers do not come back to their workplace. When telephoned and asked about their absence they simply state that they are not interested in the job anymore. According to the employers in such a case a worker does not face any serious consequences from the authorities.

Two factory managers brought up another interesting issue – a generation gap. According to them the new young generation of workers shows different attitude towards work than the generation of their parents. So called 'older workers' are willing to work hard and they do not need an extra motivation. On contrary younger workers, who usually have no siblings as they were born under 'one child policy', present much different attitude. As mentioned above they are the first ones to raise the question of dirty work condition and demand a higher pay. As they grew up, unlike their parents, in the commercialized world they consumption needs are much greater. As a result they express their financial demands baldly. One factory manager from Guangzhou told me that now it is common for such a worker to come all the way out to the factory (it is about one hour drive from the city), stay there for 2–3 days and then leave claiming that job position is not suited for them. Of course such attitudes contribute to upwards pressure on wages.

Rapid growth of salaries, although has many advantages for the Chinese society, is not necessarily a good thing in the long run. On one side it allows workers to have a bigger share of the economic growth benefits. It helps to fulfill two government goals: more harmonious society and economic growth pushed up not only by investment but also by consumption. However it can contribute to growth of prices, which can be already observed for example in food sector<sup>3</sup>. As it was mentioned above it also causes production costs to go up. I heard from my Chinese colleague that there are some factories in Guangzhou area, which specialize in producing for export and which already cannot afford to pay workers their salary. This results in downtime – factory must operate on half capacity mode to minimize losses. Workers who are hired there suffer additionally as they get paid depending on the output volume they produce.

---

<sup>3</sup> In April 2012 in China food prices went up by 7% on year-on-year basis. <http://www.tradingeconomics.com/china/inflation-cpi>

Finally if the production costs go up enough, some producers may consider moving to another country. This process has also already begun, for example in textile branch<sup>4</sup>. However according to *The Economist* it will take years as China's potential international competitors have many serious flaws: lack of sufficient infrastructure, lack of reliable supply chains, scarcity of raw materials, and finally lack of vast, flexible and highly productive labour market as the one in China (Manufacturing 2012). The bottom line is that no country can currently replace China as the primary 'factory of the world' and that we all must learn how to deal with the new economic and social circumstances.

When asked about the future of the Chinese labour market managers and factory owners give diverse answers. Factory owner from Shandong province claims that wages will continue to grow but not so fast as it is happening now. He expects some people who now stay outside of labour market to come back because their personal savings will run out. He thinks that economic growth will slow down in the coming years and this will also push some people back into job seeking situation. As a person who received college education in the United States and Canada he also acknowledges downsides concerned with China's rapid economic growth e.g. widespread corruption and environmental pollution. Another manager from Guangzhou gives interesting solution to labour shortages. His idea is to replace human production capacity with automatic machines. It is something that was widely practiced as far back as nineteenth century industrial revolution and it contributed to unemployment among urban dwellers. Is this scenario possible for China also? Nobody can be sure but undoubtedly the issue of rising wages will be a concern for many in the years to come.

## References

- China's economy (2012), 'Fears of a hard landing. China ran a massive trade deficit in February. What does it say about the economy?', *The Economist*, May 17<sup>th</sup>.
- More, M. (2011), 'China's workforce "dries up"', *The Telegraph*, March 21<sup>th</sup>. <http://www.telegraph.co.uk/news/worldnews/asia/china/8409513/Chinas-workforce-dries-up.html>
- Manufacturing (2012), 'The end of cheap China. What do soaring Chinese wages mean for global manufacturing?', *The Economist*, March 10<sup>th</sup>.

---

<sup>4</sup> This information was given to me by international forwarder representative in Poland. They claim that because of rising production costs in China and growing freight costs some importers replaced their Chinese clothes suppliers with Turkish ones.