

The Upside to Wage Hikes in China

by Sanchita Basu Das
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IS “Made in China” losing ground? In the past few months, Chinese factories have been hit by several strikes as the workers demanded higher pay.

Employers in China also reported trouble in recruiting new employees after migrant workers failed to return to their jobs in the coastal regions after the Chinese New Year holidays. Many believe that the workers are becoming more skilled and are finding business opportunities inland. All this pushes wages higher as employers either give in to workers’ demand for better pay or compete with each other for staff from a shrunken pool of labour.

In the case of Honda suppliers in China, worker unrest resulted in a wage increase of over 20 per cent. As for the electronics industry, following a spate of suicides at the Foxconn plant in Shenzhen, pay was increased by 30 per cent, with a second hike to follow in October. Several cities in the export hub of Guangdong province have raised their minimum wage by 20 per cent. Now, minimum wage workers in Guangdong can earn US\$150 a month compared with US\$100 a month in Indonesia, US\$88 a month in Laos and US\$135 a month in certain provinces of Thailand.

Hence, “Made in ASEAN” looks set to increase its market share at China’s expense. Many industries, such as footwear, textiles, apparel and electronics, are considering ASEAN in their pursuit of lower costs. Indeed, a population of over 600 million in ASEAN offers plenty of labour, with the working population expanding by 15 per cent during the period from 2000 to 2008.

ASEAN countries already hold key positions in world manufacturing and trade. For example, Malaysia is renowned worldwide for its high-quality and competitively priced rubber products. Vietnamese footwear ranks fourth in world export value after those of China, Hong Kong and Italy. Meanwhile, Thailand is becoming a centre of automobile manufacturing for the ASEAN market and Indonesia is an important global source of textiles and clothing.



US companies are leading the trend to invest in ASEAN, especially since the economic downturn has increased the pressure to seek cheaper labour. Reebok International is looking to expand its operations in Indonesia after doubling production there in recent years. Ford Motor plans to start producing its Focus passenger cars in a new US\$470 million factory in Rayong, Thailand. Japanese companies are also not far behind. Mizuno, the Japanese sportswear company, is expanding its operations in Indonesia. In Vietnam, Canon has been steadily increasing production since it began operating there in 2001.

Apart from labour unrest and wage problems, China also suffers from bureaucratic and counterfeiting headaches. The Chinese bureaucracy, which stretches from the central government to villages in the countryside, acts as a deterrent to foreign investors.

As for counterfeiting, studies have reported that it accounts for about 8 per cent of China's gross domestic product. Moreover, China has become the platform for the export of counterfeit products to other countries in Asia, Europe, and the US.

Lastly, a number of countries in Europe and South America have imposed anti-dumping tariffs on Chinese products. Countries impose these duties when they realise that the exporting country is selling a significant amount of goods to their markets at prices lower than the exporter's domestic market prices. Hence, many companies are facing duties and losing competitiveness.

But despite rising production costs, China is unlikely to lose its status as the world's workshop any time soon. Its developed infrastructure and massive domestic market will remain attractive. Thus, wage increases in China are not necessarily bad news for investors. For example, the Japanese budget clothing line, Uniqlo, has produced its goods in China since the 1990s to keep its prices low. But in 2002, it introduced its stores there and has opened 64 outlets in the country so far. The company aims to open 1,000 stores in China in the next decade to cater to increasingly wealthy Chinese.

The companies that depend on China's workers also view the Chinese as crucial consumers of their goods.

The writer is Lead Researcher for Economic Affairs at the ASEAN Studies Centre, Institute of Southeast Asian Studies.