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Labour shortages: Double-digit wage increases

By Rahul Jacob

The weeks after Chinese New Year are typically peak recruiting season for the factories in southern China, which for three decades have produced toys, jeans and electronics for retailers around the world.

This year was markedly different. Factory owners in Dongguan, a city a couple of hours drive from Hong Kong that consists of constellations of factories specialising in different products, reported that they were confronted with a labour shortage.

David Liu, who owns a handbag making business in the city, complained that, whereas in the past, workers would ask their bosses to hire their friends and there were queues of applicants outside the factory gate, this year the factory had had to ask employees to help recruit their friends.

China, the country long thought to have an inexhaustible labour supply, in 2012 delivered a rude shock to the world. It is running out of workers.

Employers have had to reconcile themselves to double digit wage increases in the past couple of years in response. They are still having to grapple with high worker turnover as young workers switch jobs in search of improved pay and a better working environment.

Says Sunny Tan, executive director of Luen Thai Holdings, which has factories in China and southeast Asia: “We want to change our model and work differently in China.”

Mr Tan points out that with turnover as high as 10 to 15 per cent a month in electronics factories, training workers becomes a very difficult task. “Can an HR department be an HR department,” he asks, “or are they just reduced to recruiting?”

The challenge of high turnover notwithstanding, factories in China must increase the training of young workers and raise productivity or risk going out of business.

Neale O’Connor, an academic at the University of Hong Kong who has done extensive research of factories and suppliers in China, said he had surveyed 750 executives, asking how they were coping with managing the conundrum of higher labour costs.

He reports that 85 per cent said they were not planning on introducing automation. Mr O’Connor says “rather than move [to less expensive countries in southeast Asia], there is so much scope" to make process improvements in the way workers are managed – for instance by using cross-functional teams and outsourcing certain functions.

It is precisely because China has had such an abundance of labour in the past couple of decades that employers have taken the easy step of simply throwing more bodies at a task. The labour shortage is likely to prove the impetus for raising their efficiency and managing them better.

As problems go, the labour shortage is more insoluble than most because it is the result of a tectonic plate moving under the world's factory floor. The one-child policy of the past 30 years means that China is ageing faster than any other developing country in the world.

Because of its overwhelmingly large share of the world's manufacture of toys, electronics and even industrial goods, moving out of China in search of lower wages is not as easy as it might seem.

Mr O'Connor and others point out that for China the ecosystem of suppliers in multiple industries is a huge source of competitive advantage. So, too, is its developed-world infrastructure of six-lane highways and efficient deepwater ports.

Despite this, several headlines have suggested a vast exodus of manufacturers out of China.

While there has been some movement of factories in labour-intensive industries like clothing to countries such as Bangladesh and Indonesia, executives have found that, among developing countries, another of China's advantages is that its government is much more responsive than most.

At a sourcing conference organised by the French Chamber of Commerce in Hong Kong this year, many speakers sounded almost traumatised by the rigours of dealing with the Kafkaesque bureaucracies in India and Bangladesh.

One said that it had taken 18 months of filling forms to receive a licence in India compared with a process a third as long in China. In Bangladesh, the power outages and clogged roads make meeting tight deadlines for retailers in the west problematic when time to market is critical.

At the conference a US jeans manufacturing executive with supplier factories in Bangladesh said: "There are predictions that Bangladesh's exports will double or triple in 10 years. We look at [the roads and the infrastructure] and say, 'How?'."

Ben Simpfendorfer, who heads the consultancy Silk Road Associates, says he has been repeatedly asked by clients seeking cheaper labour costs where the next China is.

He says that the answer for some is underwhelming. Because of China's size and its infrastructure and industrial ecosystem, there is no next China.