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# Looming crisis for the World's Factory

China is called the 'World's Factory' because of its **robust** manufacturing sector. These industries have created many jobs and helped the country rake in **mammoth** revenues. But clear signs of trouble are emerging as the country continues to develop

**R**URAL migrant workers are the key force that has driven China's rapid economic growth. They even made runner-up in *Time* magazine's 'Person of the Year' in 2009.

The magazine noted that China was able to maintain strong economic growth in that year, while the rest of the world was reeling from the shock of the financial tsunami. The mainland's workers should get credit for making that happen.

But there are signs that the mainland's status as the world manufacturing giant is being shaken.

About two or three years ago, factories in the Pearl River Delta area started to close down.

Recently, a manufacturer of Nokia phone parts in Jiangsu and a factory that made screens for Apple mobile devices ceased operation. Factory failures mean job losses.

**Paradoxically**, there is a labour shortage at the same time. A Dongguan manufacturer told the media that it was hard to recruit even at higher salaries.

What are the problems that are hitting the World's Factory?

## Dwindling labour force and rising wages

A **HUGE** supply of cheap labour was the reason China became the world's leading manufacturer.

On this issue, Nobel Prize laureate Arthur Lewis' 1954 article 'Development with Unlimited Supplies of Labour' was **illuminating**.

In it, he argued that if labour supply was unlimited, businesses would expand their scale of operation indefinitely. This would spur rapid economic development.

China has a big labour force, with 270 million rural migrant workers who had been employed at low wages for a long time.

But the situation has changed since 2007, as wages have started to rise steeply – at an average annual rate of 14 percent.

## Labour costs rise, production lines leave

UNDER globalisation, China is not the only choice as a manufacturing base for companies. Labour costs in Vietnam and India, for example, are half those in China, and many multinational companies have moved production lines to these countries.

Samsung	has phone factory in Vietnam
Lenovo	has factories in Mexico, India
Adidas	will move China factory to Burma
Apple	to move some computer production lines back to the US
Citizen	to move production from Guangzhou to Thailand

## Labour force contracts year after year

THE **departure** of multinational companies is bad news for the World's Factory.

But this is inevitable. Companies move their production lines to places with cheaper costs when their profit margins are eroded by fast-rising wage levels, caused by labour shortage.

China's core labour force – people between the ages of 25 and 49 – has, in fact, been dwindling. It will continue to drop from the present 568 million to 500 million in 2025. That is 12 percent in 10 years.

There are also developments that have added to the production costs in China. These included the appreciation of the yuan and improved legal protection of worker rights under the Labour Law of the People's Republic of China (中華人民共和國勞動法), such as regulation of overtime work payment.

## Flagging economies respond to China

SINCE the 2008 financial tsunami, the world economy has been in recession. Full recovery is not in sight, and certain European countries are even on the brink of bankruptcy.

Recently, a number of countries have cut interest rates or allowed their currency to depreciate, to increase the competitiveness of their products to spur export.

But the yuan is going in the opposite direction. Its appreciation has weakened the competitiveness of Chinese products. When 'Made in China' is no longer **synonymous** with low prices, there will be fewer orders for goods.

Meanwhile, in a bid to revive their economy, some countries are trying to entice their companies to move production lines in China back home.

For example, US President Barack Obama has introduced a range of initiatives to enhance the competitiveness of local businesses. These include a US\$100 million (HK\$780 million) apprentice programme to sharpen the skills of workers. New jobs have thus been created.

## China products lack quality assurance

CHINA products are cheap, but not always good. In fact, poor quality has been a chronic complaint of goods made in China.

By contrast, people have always **associated** Japanese brands with good quality. Maintaining consumer confidence with high quality products is, in many ways, more important than cutting production costs.

In fact, some consumers were overjoyed when they learned that Panasonic is moving the production of some of its products from the mainland back to Japan. 🇯🇵

