

Unrest May Signal New Phase in China Economy

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FOSHAN, China — Add another entry to the list of worries for the global economy and financial markets: labor unrest in China.

Rapidly rising industrial wages are beginning to allow China's workers to share in their country's rising prosperity. The question is whether these gains can be maintained and even increased without disrupting supply lines to companies around the world, and without discouraging much future investment by Chinese and global companies alike.

The biggest eye-opener for multinationals in China recently has been a nine-day-old strike at a sprawling Honda transmission factory here in Foshan, about 100 miles northwest of Hong Kong.

The strike, which has forced Honda to suspend production at all four of its joint venture assembly plants in China, has shown that Chinese authorities are willing to tolerate work stoppages at least temporarily, even at high-tech operations on which many other factories depend.

Chinese policy makers are trying to let wages rise to create the foundations of an economy driven by domestic demand, without derailing the export machine that has produced the world's strongest economic growth over the last three decades.

Even before the strike, manufacturers and buyers of low-cost products were already actively seeking alternatives to China, like Vietnam and Cambodia, said Richard Vuylsteke, the president of the American Chamber of Commerce in Hong Kong.

"They're looking very seriously, and we're seeing that in apparel and footwear," he said. "A lot of our members are seeing appreciating wages."

Honda has been making increasingly generous offers — or perhaps desperate offers — to settle the strike. The company has already offered increases in total compensation of close to 50 percent, according to crumpled-up copies of the offer provided by striking workers.

Roughly half of the 1,900 workers are recent hires from high schools and vocational schools who are paid training rates of just 900 renminbi, or \$132, a month, pay slips showed. More experienced workers at the three-year-old factory earn up to 1,500 renminbi, or \$220, a month.

Honda's offer would raise total compensation for trainees to \$202 a month, including benefits like a new food allowance; older workers would get slightly smaller raises. The strikers rejected the offer because nearly half of the raises consisted of increases in benefits that might be revoked later. The strikers are demanding an extra 800 renminbi a month, or \$117, all in cash.

Takayuki Fujii, a Beijing-based spokesman for Honda, said Saturday evening that negotiations were continuing, but he declined to provide details.

There were signs on Saturday that the Honda strike was beginning to test the government's patience. After two days of allowing surprisingly extensive coverage by state-controlled media, the authorities imposed a blanket ban on domestic coverage, reverting to their usual policy of hushing up labor disputes.

Local newspapers had no mention of the strike this morning, and many references to the strike had disappeared from

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Chinese Internet sites. But there was no sign of police at the factory or one of its dormitories.

Labor advocacy groups say that they hear of frequent strikes in China, with work stoppages occurring somewhere every day. But strikes are typically hushed up and are often resolved in a day or two by the authorities, either with the police or through pressure on employers and workers to resolve their differences.

Honda is not alone in facing intense pressure to raise wages. Foxconn, a giant electronics manufacturer near here in Shenzhen, said on Friday that it would raise wages by about 20 percent after being deeply embarrassed by a series of suicides by workers this year and criticism of working conditions.

The overall effect of wage increases on China's competitiveness is not entirely clear, because of incomplete national data on average wages and productivity. Nicholas Lardy, a specialist in the Chinese economy at the Peter G. Peterson Institute for International Economics, said that Chinese productivity was rising so quickly that actual labor costs per unit of production appeared to be flat.

One surprise of the strike here is that it involves laborers whose wages appear to have already roughly doubled in the last five years: blue-collar workers in export factories in the Pearl River delta region around Hong Kong.

By contrast, the wages of young college graduates have actually declined in recent years as China has rapidly expanded its universities and built new ones, creating a surplus of more highly educated workers.

The president of a big Chinese corporation, who insisted on anonymity because of the sensitivity of labor issues, said that his company paid 4,000 renminbi a month a decade ago for recent graduates with computer science degrees, which is \$585 at current exchange rates, and only 3,500 renminbi now.

If anything, conditions are growing worse for new college graduates, not better. A survey in Beijing released earlier this month by the Communist Youth League Beijing Committee and the Beijing Youth Stress Management Service showed that a fifth of new college graduates with bachelor's degrees and a tenth of graduates with master's or doctoral degrees were willing to work for free in their first jobs because they despaired of finding paid work.

The government has tried to respond to the glut of college graduates by ordering state-owned enterprises to hire large numbers of them and try to find tasks for them to do. But these enterprises are increasingly expected to be profitable and have not absorbed all of the graduates, with the result that big cities in China have growing numbers of unemployed or low-paid college graduates.

These graduates are typically the only child in a family because of China's one-child policy, and their families have frequently invested much or all of their savings in their educations.

Partly because so many young Chinese now go to university and partly because of a declining birth rate, the number of young Chinese available for factory work is falling far short of the demand from employers. That is producing higher wages for blue-collar workers and giving them leverage to demand even more, as the Honda strike shows.