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Socialist workers - Is China's labour market at a turning-point?

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Economics focus

On June 7th strikers at a rubber factory near Shanghai clashed with Chinese police. "The smell from the rubber is unbearable," a migrant worker told the [South China Morning Post](#), "but we don't even get a toxic fumes subsidy." On the same day Honda suffered a strike in a factory that makes its mufflers and exhaust parts, less than a week after it settled an earlier dispute by offering a 24% pay rise. On June 6th the owner of Foxconn, an electronics-maker, said that workers at its Shenzhen complex could earn 2,000 yuan (\$293) a month from October if their work was up to scratch, about double the basic pay it previously offered, following a string of widely publicised suicides.

China is known for its plentiful, pliable workers. But these incidents have cast doubt on that caricature. In March Arthur Kroeber of GaveKal Dragonomics, a consultancy, declared the "end of surplus labour" in China. Three years earlier, Cai Fang of the Chinese Academy of Social Sciences argued that China, a country of 1.3 billion people, would soon run short of workers.

China's labour supply is still growing. Its working-age population will increase from almost 977m in 2010 to about 993m in 2015, according to projections issued in December by the US census bureau (see left-hand chart). But the number of youngsters (15-24-year-olds) entering the labour force will fall by almost 30% over the next ten years. These projections reconcile the results of a full census in 2000 and a mini-census in 2005. They differ from the calculations reported in this newspaper on September 6th 2008 ("[Reserve army of underemployed](#)"), which suggested that the supply of twenty-somethings would not peak until after 2015.

The ageing of China's labour force matters, because older workers are less willing to move to the coastal factories that depend on migrant labour. Mr Cai has calculated that 24% of villagers aged 16-30 migrate, compared with only 11% of those in their 40s. "For years, businesses have simply assumed that China has an unlimited supply of young people who can be had for modest wages and replaced at will," Mr Kroeber writes.

The assumption goes back a long way. In 1954 Sir Arthur Lewis, a development economist, noted Asia's overmanned farms, its surfeit of dockworkers and petty traders, and "the young men who rush forward asking to carry your bag". He concluded that "over the greater part of Asia, labour is unlimited in supply." Islands of capitalism existed amid a sea of subsistence labour. For as long as that were true, the capitalist enclaves could grow without wages rising: they only had to offer workers a little more than could be scraped together in the vast economic hinterland. But eventually, the economy would reach a turning-point. The capitalist enclaves would reach so deeply into the country's pool of labour that the remaining supply of farmers, traders, dockworkers and bag-carriers would fall short of demand. At this point, the economy could not grow without wages rising.

Mr Cai believes China has already reached this "Lewisian turning-point" and that its arrival can be seen in more assertive workers and wage rises. As Mr Cai and his colleagues wrote presciently last year, the turn "enhances the labourers' right to speak in the labourer-employer negotiation because labourers can impose stress on employers through voting with [their] feet." The pay hikes won by labourers at Honda and Foxconn are unusually big. Some cities, such as Beijing, have announced increases in their minimum wages of up to 20%. If wages continued to rise at this pace, it would mark a hairpin turn in China's labour market.

Such an abrupt change is hard to explain by demography alone, however. The supply of mobile youngsters may be about to fall but it is still higher than it was five or ten years ago, when the cohort of youngsters was unusually small. This baby bust was a demographic echo of the rural famines that haunted China from 1958 to 1961, reducing the size of the cohort that would have been their parents (see right-hand chart).

Returning point

In fact, there are good reasons to doubt that the turning-point is here. The pay hikes follow a period of wage freezes during the financial crisis, points out Tao Wang of UBS. By themselves, the pay rises mostly make up for ground lost last year. China's economic hinterland remains vast. About 40% of the country's labour force remain in agriculture, where their productivity is about one-sixth of its level in the rest of the economy. The share is also falling quite slowly: Richard Herd and his colleagues at the OECD think it will take another decade for it to drop to 25%.

Sir Arthur offered several reasons why wages might rise even before a country reached its turning-point. The "subsistence" wage itself might rise, for example. "The subsistence level is only a conventional idea, and conventions change," Sir Arthur pointed out. Migrants

are less willing to leave home because conditions in China's hinterland have improved. "'Home' now has running water, electricity, highways, even internet access," says Ha Jiming of CICC, an investment bank. A government survey of returned migrants found that 30% were not sure whether to venture out again, compared with 24% two years ago.

Sir Arthur also pointed out that there was often a gap between the wages paid in the capitalist economy and the subsistence earnings in the hinterland. Where the islands of capitalism met the sea of subsistence labour, there was not a "beach", but a "cliff". To tempt workers over that cliff, firms have to pay a premium—fumes subsidies and the like. With the ageing of the Chinese workforce that premium may rise. But again, this does not in itself mark the turning-point.

That moment will come, of course. When it does wages will rise, eroding the return on capital. But as Sir Arthur argued, workers are not the only ones who can migrate. Capitalists can also go to where workers are abundant. First, labour-intensive factories will move inland. Eventually they will depart China altogether, just as they left Japan and Taiwan before it. That, after all, is why Honda and Foxconn opened plants there in the first place.

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