

CHINA'S LABOR SHORTAGE IN THE AFTER-CRISIS ERA

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Executive Summary

1. The labor market for migrant workers in China has taken a dramatic turn. Merely one year after waves of lay-off, the coastal region is now faced with a massive shortage of migrant workers.
2. The labor shortage problem, which has been felt since the second half of 2009, became even more acute in the weeks following the Chinese New Year in February 2010. As at early March, the shortage in the Pearl River Delta alone was estimated to have hit one million.
3. This round of shortage is nationwide. While the shortage has hard hit coastal China especially Pearl River Delta, strains in the labor market are felt even in the inland provinces. As always, there is severe shortage of workers with technical expertise.
4. The ongoing labor shortage in coastal China reflects a profound change in the expectations of second generation migrant workers. Now constituting half of the migrant workforce, they are less tolerant of low levels of compensation for harsh working and living conditions than their parents' generation.
5. Despite recent signs of moderation in the labor shortage problem, most economists and observers believe that the problem will continue to prevail. While China will continue to enjoy population dividends for the time being, there is consensus that the current level of wage rates and labor costs is unsustainable.
6. In response to the shortage, governments in coastal provinces have unanimously adjusted the minimum wage rate upward. The margin of increase ranges from 10% to 20% in most provinces. Some regions are also considering offering better public services and social protection to retain and attract migrant workers.

7. Labor-intensive factories increasingly find themselves in a different and challenging environment. Migrant workers are now not only more picky about jobs, but also more straightforward about their demands, going on strikes and engaging in other forms of protest. A recent wave of strikes has forced Honda and other firms to substantially raise workers' pay.
8. Meanwhile there is growing public scrutiny of corporate social responsibility. A good case is Foxconn, the world's largest contract maker of electronics. It announced a 30% pay rise for production line workers in early June 2010 after a dozen suicidal cases in its Shenzhen plant aroused fierce public anger.
9. With China becoming a middle-income economy after three decades of near-double-digit economic growth, migrant workers for the first time are able to demand for better treatment, economically and socially, thanks to the increasingly tight labor market and the growing sympathy for low-wage workers.
10. The current labor shortage can both serve as a signal and stimulus to the change in the labor market, the economy and the society. The old model of low wages and weak protection is being challenged by the second generation migrant workers. The future of China rests on whether a new model of more inclusive growth can emerge.