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Labor Shortage in China May Lead to Trade Shift

By [DAVID BARBOZA](#)

SHENZHEN, China — Persistent labor shortages at hundreds of Chinese factories have led experts to conclude that the economy is undergoing a profound change that will ripple through the global market for manufactured goods.

The shortage of workers is pushing up wages and swelling the ranks of the country's middle class, and it could make Chinese-made products less of a bargain worldwide. International manufacturers are already talking about moving factories to lower-cost countries like Vietnam.

At the Well Brain factory here in one of China's special economic zones, the changes are clear. Over the last year, Well Brain, a midsize producer of small electric appliances like hair rollers, coffee makers and hot plates, has raised salaries, improved benefits and even dispatched a team of recruiters to find workers in the countryside.

That kind of behavior was unheard of as recently as three years ago, when millions of young people were still flooding into booming Shenzhen searching for any type of work.

A few years ago, "people would just show up at the door," said Liang Jian, the human resources manager at Well Brain. "Now we put up an ad looking for five people, and maybe one person shows up."

For all the complaints of factory owners, though, the situation has a silver lining for the members of the world's largest labor force. Economists say the shortages are spurring companies to improve labor conditions and to more aggressively recruit workers with incentives and benefits.

The changes also suggest that China may already be moving up the economic ladder, as workers see opportunities beyond simply being unskilled assemblers of the world's goods. Rising wages may also prompt Chinese consumers to start buying more products from other countries, helping to balance the nation's huge trade surpluses.

"The next great story in China is how they are going to move out of the lower-end stuff: the toys, textiles and sporting goods equipment," said Jonathan Anderson, an economist at UBS in Hong Kong. "They're going to do different things."

When sporadic labor shortages first appeared in late 2004, government leaders dismissed them as short-lived anomalies. But they now say the problem is likely to be a more persistent one. Experts say the shortages are arising primarily because China's economy is sizzling hot, tax cuts have helped keep people working on farms, and factories are continuing to expand even as the number of young Chinese starts to level off.

Prosperity is also moving inland, and workers who might earlier have migrated elsewhere are staying closer to home.

Though estimates are hard to come by, data from officials suggest that major export industries are looking for at least one million additional workers, and the real number could be much higher.

"We're seeing an end to the golden period of extremely low-cost labor in China," said Hong Liang, a [Goldman Sachs](#) economist who has studied labor costs here. "There are plenty of workers, but the supply of uneducated workers is shrinking."

Because of these shortages, wage levels throughout China's manufacturing ranks are rising, threatening at some point to weaken China's competitiveness on world markets.

Li & Fung, one of the world's biggest trading companies, said recently that labor shortages and rising manufacturing costs in China were already forcing it to step up its diversification efforts and look for supplies from factories in other parts of Asia.

"I look at China a lot differently than I did three years ago," said Bruce Rockowitz, president of Li & Fung in Hong Kong, citing the rising costs of doing business in China. "China is no longer the lowest-cost producer. There's an evolution going on. People are now going to Vietnam, and India and Bangladesh."

The higher wages come at a time when costs are already rising sharply across the country for energy and land. On top of a strengthening Chinese currency, this is likely to mean that the cost of consumer goods shipped to the United States and Europe will rise.

To be sure, China is not about to lose its title as factory floor of the world. And some analysts dispute the significance of the shortages.

"Reports of a shortage of unskilled and semi-skilled factory workers are overblown," said Andy Rothman, an analyst at CLSA, an investment bank. "Companies are, however, having trouble finding experienced people to fill midlevel and senior management jobs."

The lack of workers is most acute in two of the country's most powerful export regions: the Pearl River Delta, which feeds into Hong Kong, and the Yangtze River Delta, which funnels into the country's

financial capital, Shanghai. Wages are rising significantly in both areas.

According to government figures, minimum wages — which averaged \$58 to \$74 a month (not including benefits) in 2004 — have climbed about 25 percent over the past three years in big cities like Shenzhen, Beijing and Shanghai, mostly by government mandate.

Wages at larger factories operated on behalf of multinationals — which are typically \$100 to \$200 a month — are also on the rise.

Here in Shenzhen, one of the first cities to benefit from the country's economic reforms, factory operators say finding low-wage workers is harder than ever. At the Nantou Labor Market, where hordes of people used to come to find jobs, there are now mostly lonely employment agents.

"The people coming here are fewer and fewer," said a woman named Miss Li, who works at the Xingda Employment Agency. "All the labor agencies face the same problem. A lot of young people are now going to the Yangtze River area, where there are higher salaries."

In Guangdong Province late last year, the government said factories were short more than 500,000 workers; and in Fujian Province, there was a shortage of 300,000.

Even north of Shenzhen, Zhejiang Province, known for its brash entrepreneurs, is short about 200,000 to 300,000 workers this year, government officials say. The Wahaha Group, a Chinese beverage maker based in the city of Hangzhou, is one of the region's rising corporate stars. But one of the company's 500-worker factories is short by 50.

"It seems to become more and more serious year by year," said Sun Youguo, the company's human resources manager. "Because of the shortage we're paying more attention to migrant workers. We're now building a dormitory to house couples."

Government policy is playing a role in creating the coastal labor shortages. Trying to close the yawning income gap between the urban rich and the rural poor in China, the national government last year eliminated the agricultural tax, and it also stepped up efforts to develop local economies in poor, inland and western provinces, which have mostly been left behind.

Now, even remote areas are starting to develop — sprouting malls, housing projects, restaurants and infrastructure projects. These are creating jobs in the middle of the country and offering alternatives to many young workers who once were forced to travel thousands of miles for jobs on the coast.

According to Goldman Sachs and other experts, the beginnings of a demographic shift have already been reducing the number of young people between the ages of 15 and 24, who make up much of the migrant labor work force. Similarly, the number of women between the ages of 18 and 35 began falling this year, according to census data.

The women are critical because China's factories like to hire many women from the countryside, who have been willing to migrate for three-to-five-year stints to earn money as factory workers before returning home with bundles of cash and fresh hopes of finding a marriage partner.

China's one-child policy is also aggravating the shortages. With the first generation of young people born under the one-child policy now emerging from postsecondary education, many of them see varied opportunities not available to an earlier generation.

"When the economic reform started, migrant workers were very hard-working, and usually stayed for a long time at factory jobs, but the new generation has changed," said Chen Guanghan, a professor at Zhongshan University in Hong Kong. "They are reluctant to take factory jobs that are harsh and pay very little."

Many are going to college to avoid the factory floor. Last year, Chinese colleges and universities enrolled over 14 million students, up from about 4.3 million in 1999.

Workers are sharing more information about factory conditions among friends and learning to bargain and leap from job to job. They are also increasingly ambitious.

"There's still a lot of cheap labor, but Chinese workers are getting skilled very quickly," said Ms. Hong at Goldman Sachs. "They are moving up the value chain faster than people expected."

Economists may continue to debate the severity of the shortages, but there is little doubt that the waves of migrants who once crowded into the booming coastal provinces are diminishing.

As a result, manufacturers are already starting to look for other places to produce goods.

"Many companies are already moving to Wuhan, Chongqing and Hunan," Ms. Hong said, ticking off the names of inland Chinese cities. "But Vietnam and Bangladesh are also benefiting. We're bullish on Vietnam."

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