

Pay productivity in china, flexibility of wage determination in china



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Wage Determination, Pay and Productivity In China al Affiliation This paper examines and analysis the Chinese economy. The paper specifically explores the labor market and the structural changes that have taken place. It also seeks to establish the wages and productivity levels in china and its industrial competitors.

Flexible wage determination in China

Recent data shows that china is among the fasted developing countries in the world. This means there is increased industrial production. The observed increased production has increased the demand for labor in China.

Consequently the demand for better wages has intensified. This has led to increased rural – urban migration in china and influx of immigrants to fill in this gap. Eldies (2003) explains wages are the returns of labor as a factor of production and wage flexibility as the ability of wages to respond to changes in the demand and supply for labor. According to Gordon and Li (1999), under perfect wage flexibility, wage is determined at the point where the marginal revenue of labor is equal to the marginal cost of labor.

Policy changes such as the household registration system reforms and the shift of labor market from a centrally planned to a market oriented market led to increased labor mobility Sweeney (2014). The increased competition saw a huge demand for increase in capacity building as labor sought for higher education so as to remain competitive. As a result a relatively uniform wage rate in most of the sectors in china has moved towards the set market clearing wage.

Government owned enterprises wages are highly regulated through policies such as minimum wages and wage setting. People in different job groups

earn different wages. Then private sector labor market since 1990 economic
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reforms has adopted the labor contract system. Under this system, the employees are not permanently employed and wage is set through an agreement between the employer and the employee. This system has since led to massive layoffs which have led to government intervention through policy reforms.

China has experience a sharp increase in trade unions. This has led to increase labor market bargaining power hence improved wages.

Pay and productivity in china

Dong and Bowles (2002) defines pay as the returns of labor as a factor of production and productivity as the output per unit of labor input. They point out that productivity can be increased through capacity building and motivation among other factors. According to Cowen (2010) pay is one of the motivational factors and an increase in pay leads to an increase in productivity as workers are highly motivated to work.

The global financial crisis led to a decline in the Chinese productivity growth. The productivity growth went to a decline for the first time since the Cultural Revolution. Chinese companies have continued to register losses since the onset of the financial crisis in 2008. Chinese factory production has contributed a significant potential growth decline from 3. 2% in 2008 to 1. 1% in 2013 (Sweeney 2014). This has been attributed to the rise in cost of labor, credit and energy. The high labor cost can be attributed to the cheap credit which the china government injected into the economy in the year 2009 to increase and maintain employment. The high labor cost has resulted in low monthly compensation of employees.

Most of the Chinese companies depend on fixed assets investment and priced credit in order to grow (Cowen, 2010). China has experience a sharp
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increase in minimum wages to a current figure of 20 percent of the U. S minimum wages. The average monthly wages for workers in China is \$495.00 which is higher than its counterparts in Indonesia, Philippines and India. The increasing wages will increase the cost of production which will in turn lead to increased prices. Therefore china will lose its market to these other countries that has lower production cost hence lower prices. This will translate to slower economic growth and unemployment. Since 2008 china, productivity growth has depended on state direct investment.

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