

# China's labour challenges



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## Introduction

China is home to the largest labor force of 269 million workers is running short of labor. This economic development has occurred due to the hard labor conditions and increase in wages in the Chinese manufacture sector. The main reasons affecting the decrease in labor are: -Shift by migrant worker and declining young work force due the government policies in China.

### Shift back by migrant workers

In recent years, the trend in Chinese labor market is changing and workers who use to leave their families behind in their respective providences for better job prospects in highly industrial areas. This relocation of labor from rural areas has helped Chinese industries with abundant and cheap labor and made smooth progress in the rapid growth of very labor-intensive manufacturing companies are concentrated along Chinese coastline mainly in the Guangdong, province . But in this urban labor markets, these migrant unskilled labor are paid very low salary with extreme long hours of work and also are not provided with better housing. (Meng and Zheng, 2001).

Since 2004, China started to see shortages in labor because there was an extensive amount of factories been built but china could not provide the man power to run these new establishments. This caused an economic shift which due to shortage of labors it created an excess amount of labor intensive jobs but no man power to fill these positions. China had become a world power due to its ability to provide cheap labor which had started to show signs of

weakening. Since the cost of living is increasing, unskilled laborers moved back to farming. Since the consistent inflation of agricultural products farmers are paid higher for their produce of agricultural goods. Due to which unskilled workers who now prefer to work on their agricultural land and stay with their family instead in factories dormitories and work very long hours. Chinese economy will face a major structural adjustment, leading to a transformation of the economic and technological structure. (Chung, 2011)

China since 1980's has had an upward economic growth which has given them the power in the world economics due to its low productivity costs and high output of finished products in short period of time.

#### Declining young work force

In 1979 a policy which was introduced to reduce the social, economic, and environmental problems in China by allowing parents to reproduce only 1 child per family which after 40 years shows the problem in the labor market. The working-age population is on a decline because of the policies in place which in recent years has been relaxed and families are allowed to have more than 1 child but still it will continue decline till 2030.

Since China has the largest population in the world and also has a largest working force but its average annual growth rate is beginning to slow down. This is happening because the number of unskilled labor market in China is reducing as the middle class is increasing who are able to provide education for their children and are moving away from blue collar jobs for white collar jobs and make a better living. And also a large section of unskilled laborers, preferred to work on the agricultural fields than factories due to the very hard

job conditions. Despite this increase in capital expenditures for manufacturers, consumers probably don't have to worry about seeing an increase in retail prices soon. Now as we know companies from developed nations have made China their base in the past because of the low production and labor costs and in turn made millions by selling these finished products to consumers all over the world. Not since couple of years, as we see China becoming more as developed nations its cost of living and wages are sharply increasing causing multinationals firms to reconsider to relocate while they can gain advantage over other firms as cost of doing business is now expensive. This is common phenomenon, which a developing nation starts increasing its economy with help of its on low-wage manufacturing facilities and the unskilled workers becoming more skilled, progressing from cheap emerging market to rich developed nation. Multinationals are now looking for locations which are closer to large number of unskilled labor to reduce their search for unskilled workers. (KPMG, 2012)

## Conclusion

This case study topic has provided a great insight into the challenges China faces as its labor cost increases and gets distributed across the country for the future of new Chinese workers. The increasing costs to run a business on the coastal region is very expensive, so multinationals are shifting to lesser known rural areas on central and western inlands where they will attract labor who prefer to be closer to home. But as we know even with the decline of labor China is still able to maintain its production and the not all companies are going to leave because the labor costs have increased, they're still cheaper than most other places. We have also seen new countries like India,

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Laos, Cambodia and Vietnam can provide cheap labor. And also some companies like Wham-O, a toy company, are returning their operating back to the U. S. This is because to improve companies to move back factory operations to U. S. to avoid high Chinese energy prices, escalating wages, land prices, lack of protection for intellectual property, and air pollution. It's become very difficult to recruit managers willing to relocate families to Shanghai or another city where pollution levels are considered a serious health threat. (Kilzer, 2014)

Law of diminishing: states when adding additional factories in a market with fixed labor, at some point the additional factories will start to suffer due the low supply of labor. This law is considered a short-run phenomenon. This case study also shows that the when a economy of developing nation increase the cost of doing business because it attracting lots of investors which cause a over flow of factories and shortage of labor in factories even for china. (Keat & Young, 2009)

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