Chinese companies struggle to find workers

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(FT) -- On one of the busiest recruiting days of the year, Yang Guowei of New Happiness Hair Accessory Company sits slumped behind a small table, one of many set up at a labour exchange in Yiwu, a city in China's eastern province of Zhejiang.

Mr Yang is trying to recruit migrant workers as the Chinese New Year holidays wind down. He is offering a monthly salary of Rmb1800-Rmb3000 ($274-$456), and looking to hire 10 workers to make rhinestone-embellished hair baubles, but has had no takers in spite of offering wages 30 per cent higher than last year.

"I have been here for four days and I haven't found anyone yet," Mr Yang says.

Nearby, Langsha Knitting, one of the world's largest sock producers which makes 1m pairs of socks a day, is having an easier time. Its human resources manager, Wang Lai, reports that he has signed up nearly all the 2,000 workers he needs.

Labour shortages for manufacturing workers have dominated headlines in the Chinese media as migrant workers return from their holidays, but some employers are proving more able to hire workers than others.

While smaller factories struggle with a nationwide tightening in the labour market, larger firms that offer better wages and benefits -- those that are more likely to have HR managers -- are able to recruit the staff they need.

Across the country, local governments have been raising the minimum wage. Next month, Guangdong province, home to a large share of China's manufacturing, will raise the minimum wage by 18 per cent.

In Dongguan, a city in the province that is home to many of China's light manufacturing factories, employers are promising an annual bonus, annual leave, and even rewards on their birthdays in a bid to sign up workers.

"Workers are God now," complains Mr Yang.

His hyperbole underlines an important demographic shift. China's once endless supply of workers is looking less infinite. The cohort of those entering the workforce, defined in China as those between 15 and 24 years old, peaked in 2005 at 227m and is expected to fall to 150m by 2024.

William Fung, who heads Li & Fung, the largest supply chain company in the world with half of its manufacturing operations in China that makes everything from garments to furniture, says the world must brace itself for "a bout of cost-push inflation."

Alongside double-digit increases in the cost of labour in China in 2010 and 2011, input prices are also soaring. The price of cotton, for example, is up more than 150 per cent over the past year.

"The reality is that [suppliers] will have to pass these costs on," says Mr Fung.

There is also likely to be a divergence between the fortunes of multibillion-dollar companies like Li & Fung, which saw half-yearly sales as of June 2010 rise by almost 20 per cent, and the small, low-tech Hong Kong firms many of which are based in the Pearl River Delta that are not well integrated into their developed world customers' businesses.

Guangdong is not the only region facing labour shortages. In poor provinces like Anhui, which has traditionally been a source of migrant workers, higher wages nearer home mean more migrant workers are opting not to travel long distances to seek work.

Li Weining, 23, left his job at the Honda parts plant in Guangzhou that had a strike last year and chose instead a factory in Zhanjiang, 400km from the city, because it is closer to his home town and living costs are lower.

"I earn Rmb1,600, which is almost the same as at Honda," says Mr Li.
Mr Li's calculus for moving closer to home is simpler than that of multinationals comparing costs of production in different countries. Most companies are unlikely to shift manufacturing operations in China to countries like India or Bangladesh.

Dragonomics, a research consultancy, calculates that labour productivity in China grew by 13 per cent annually in apparel manufacturing between 2003 and 2010, offsetting most of the increase in wages. China's rate of labour productivity growth comfortably outstrips that of Brazil, Vietnam, Indonesia and Turkey, it says.

Moreover, for industries such as the assembly of electronic components, efficient and tightly knit supply chains passing products from factories in Japan or Taiwan to the Pearl River Delta for labour-intensive work make it difficult to move manufacturing facilities elsewhere.

And behind the headlines about China's exchange rate lurks a more lethal secret. China's infrastructure is on a par with South Korea, according to the World Bank. Dragonomics says than means China combines "Third World wages with First World infrastructure".