The Disadvantages of China’s Cheap Labor in Its Foreign Trade

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Abstract: For a long time, the cheap and abundant labor resources are China’s absolute advantages in international trade, but with the development of technology and science each passing day, China’s cheap labor advantage is missing. This dissertation is focused on the disadvantages of the Chinese cheap in foreign trade in order to find some practical methods to improve our present situation in foreign trade.

Keywords: Cheap labor, Disadvantages, Foreign trade

1 Introduction

Cheap labor is a group of people who are capable of laboring for longer hours with low pay. China’s current labor force is a little over 800 million. Over 40% of those 800 million workers still work in agriculture. This means over 300 million Chinese workers are still low tech farmers, a number that is greater than two times the total work force of the United States. The United States, a net exporter of agriculture, only needs less than half of one percent of its population to be employed in agriculture. (Organization for Economic Cooperation and Development)

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2.1 Bad living condition and welfare of the cheap labor
Lots of problems in China come out in the process of developing labor intensive industries through the relative comparative labor advantage. On one hand, with the superfluous supply of labor force in China, the scale of labor intensive industries keeps increasing and competitions are getting fiercer. However, the too low income of workers can’t bring any improvement in their living quality. The income gap will be widened if this situation continues in the long run. This would make the society unstable. A new report of the European network MakeITfair is one of the first studies on working conditions related to the manufacturing of portable music players and video game consoles. The report has examined 4 factories operating in the Guangdong Province in China, namely Celestica, Flextronics, Vista Point Technologies belonging to Flextronics, and Hong Fu Jin Precision of Foxconn. Depending on who they supply, they are all first tier or second tier suppliers. They manufacture or deliver components to music player, multimedia phone and game console companies, namely Apple, Microsoft, Motorola, Philips and Sony.

In China workers often earns the minimum wage for full-time work at the factory, even though these wage levels are very difficult to live on. Although Chinese minimum wages were raised in 2008, workers still have problems covering their basic needs and often cannot afford to start a family. Most of the workers are migrant workers from poor rural regions wanting to send money back home. In order to accomplish this goal they keep their own living costs at the lowest possible level by staying in dormitories with several other workers and by eating in the factory canteen. All four factories offered new workers a basic wage equal to the legal minimum wage or slightly above, 770-935 Yuan, or 72-87 Euros per month for full-time work.

The per-hour cost for a worker in an American or European plant is between 15 and 30 dollars, or more, and this is mainly decided by whether there is a worker’s union in the plant, the plant’s location and the degree of welfare it provides, according to Jim Hemerling [1], global vice-president of BCG and person in charge of its China division. On the contrary, the per-hour cost for a worker in a Chinese plant is below 1 dollar—dozens of times lower. The wage level in Mexico and East Europe is about 2 to 8 times
that of China, but still much lower than in America and West Europe. Actual wage level fluctuates around the average level, but a 20:1 gap between the West and China cannot be neglected.

In China workers often take on extra hours to try to raise their wages. Some workers state that they cannot refuse to work overtime. In three factories, workers were employed for 80-90 hours overtime per month during the peak season. In one factory producing for Apple, up to 120 hours overtime was worked; a gross violation of Chinese labor law that limits overtime to 36 hours per month. However, the factories had obtained approval for flexibility in hours from local labor bureaus. It seems that decreased orders have recently reduced overtime—in one factory producing for Microsoft, overtime was 100-180 hours per month until June 2008. After that, the factory limited the overtime to ensure that overtime does not cross the stipulated 86 hours as mandated by “Electronic Industry Code of Conduct (EICC) guideline”. It must be kept in mind that the industry code overtime maximum is more than twice the legal maximum in China.

All four factories required workers to work day and night shifts lasting usually one month. Workers found it difficult to adapt to month-long night shift's often lasting 11 hours. Also, two factories out of four required assembly line workers to stand through entire shifts, which causes muscle ache. One factory had changed in 2008 to allow staff to sit whilst working. If a toilet break was needed, workers had to ask for permission and a so-called 'off-duty card'. One card was shared among 20-40 workers (a factory producing for Microsoft had just decreased the number from 100 to 40) making it everyday practice to queue for long periods. Some workers also reported inhaling toxic fumes and feeling nauseous in soldering sections.

Wage (or bonus) deductions, due to punitive fines are evident in three out of four factories researched in China. Even though these fines are not always illegal, they are often based on subjective and unjust grounds. For example, workers are fined for mistakes or conduct related to the unhealthy working conditions offered by the employer, such as falling asleep at work or making mistakes because of the rapid pace of the assembly line. At a factory that produces for Sony, Microsoft, Motorola and Philips workers toiled for 11 hours per day 6 days per week, but they were fined if they fell asleep at work. They had to obey a 44-point disciplinary code.

Disrespect of union rights. In China, workers’ rights are gradually improving, particularly due to the new Labor Contract Law that came into force in January 2008. All workers should have labor contracts and employers not supplying them should, in theory, be punished. However, the All China Federation of Trade Unions (ACFTU) continues to hold a monopolistic position, as prescribed in the Trade Union Law. Its chair is the vice chair of the Chinese National People’s Congress. The ACFTU is often loyal to the employer and the government instead of representing workers. Its aim is that all private factories in China should be unionized by 2010. In all four factories, the workers interviewed either did not know whether there was a union in place or regarded it as favoring management’s interest. Three factories out of four claimed to have established labor unions in 2007-2008.

Many workers lived in dormitories inside factory campuses, because most of them had no other option due to low salaries and high rental costs outside factories. Three factories charged workers for basic lodgings 10-80 Yuan’s (1-7.5 Euros) per month, one factory provided free accommodation. One room is shared among 8-10 workers, with a living space of 2.5-4.5 square meters for each worker, and very little privacy. On each floor of the dormitory, there were 100-250 persons, who even share the same washroom in some cases. Workers are often responsible for cleaning their own dormitories, while third party cleaners operated only in public areas, causing hygiene problems.

2.2 Energy and pollution problems

On the other hand, both cheap labor force cost and low productivity exist in China’s international trade. In the low end of international division of labor, the advantage of scale and price of Chinese labor force can be used to offset the disadvantage of the poor quality of workers. However, in the high end, the relative comparative labor advantage is obviously presented as high productivity. Nowadays, small scale, low level of skill, poor quality of employees, and lack of innovation are common problems in most
Chinese enterprises. These problems handicap China’s related industries from furthermore development and from forming their core competitiveness. The problem of low productivity is covered up by the advantage of cheap labor force, which weakens the relative comparative labor advantage of China in international industrial cooperation \(^2\). Meanwhile, with the further immigration of labor intensive industries of the developed countries and the increase of the relative comparative labor advantage in other developing countries with abundance of labor force resources, China is surrounded by various challenges. Upgrading industrial structures and accelerating industrial migration are the inevitable trends for China to elevate its international competitiveness.

In recent years, environmental resources intensive industries with heavy pollution, high energy consumption, and high consumption of resources in China have developed fast. Meanwhile, a host of these industries immigrated from abroad will cause irreversible damage to Chinese economy and the environment, the evidence of which can be found in the international trade structure of China in recent years. Import of primary products is reducing although in fluctuations, but raw materials such as mineral fuels and lubricants are increasing in volume. Problems of high energy consumption, large input of resources, and heavy pollution exist during the use of import products \(^3\). Many developed countries have set up manufacturing centers in China. With input of low price labor force and environmental factors, products would be transported back to these developed countries, leaving environmental pollution in China. Furthermore, development of environmental resources intensive industries would lead to over-consumption of environmental resources, which would cause unsustainable economic development. Therefore, macro-control assisted by more stringent environmental regulations is needed to restrict the development of environment intensive industries and the export of environmental intensive products to protect the natural basis of sustainable development of China.

The cost of Chinese exports is increasing, partly because of the higher cost of labor and environmental protection. Cheap labor is the foundation of the Chinese economy. However, the worker shortage apparent in some areas of China indicates that it is inappropriate to sacrifice workers’ welfare for the sake of low export prices and the Chinese government should change the situation. In recent years, China has tightened restrictions on the export of products that consume a lot of energy, create a lot of pollution or use a lot of resources in their production. Limited resources and the environment have become major obstacles to the growth of Chinese exports.

3 How to Improve Our Present Situation in Foreign Trade

3.1 Promote industrial upgrading
Promoting the readjustment of economic structure and the improvement of employment structure in coordination, and expanding the capacity of employment. It is necessary to strengthen readjustment of the industrial structure, ownership structure and enterprise structure. Greater attention will be paid to the development of labor-intensive industries to bring into fuller play their important role in absorbing the labor force.

3.2 Overcome the comparative disadvantage of cheap labor
In line with the higher and higher requirements of economic development and sci-tech progress for laborers’ knowledge level and work skills, it is necessary to further readjust the structure of vocational education, increase input, construct a modern vocational education system, and vigorously strengthen training of skilled workers, especially high-level skilled workers and technicians. In view of the demand for the readjustment of rural economic structure and the transfer of rural surplus labor, attention will be paid to elementary education and skill training for farmers.

3.3 Promote the change of labor force from quantity to quality
Skilled workers have become a scarce resource in the labor market. The ratios of number of skilled workers needed and the number of those available are 2.59 for advanced technicians; 1.93 for advanced
Raising the level of education, strengthening vocational training, and tailoring the level of human resources quality improvement to the needs of economic development. It is necessary to fully utilize various education resources, strengthen the improvement of human resources quality, direct major efforts to the promotion of quality-oriented education, stress cultivation of practical abilities, and make efforts in improving education quality, so as to train millions of high-caliber workers, thousands of special talents and a large number of outstanding innovative talents for the socialist modernization drive.

4 Conclusion

Today, China has a population of 1.3 billion people, or about 4 times larger than the population of the United States. Chinese labor, however, is no longer as cheap as it once was due to competition for both skilled and unskilled labor, a trend towards increasing unionization, the weakening dollar, and other factors.

China’s export largely depends on its cheap labor cost and product prices, which have driven the export growth on the one hand and sparked trade disputes on the other. Chinese products have encountered restrictions in some countries from time to time.

It is clear that after years of reform and opening-up endeavor China should concentrate more on quality improvement of its foreign trade than on the growth of quantity. To this end, self-developed brands will be the only cornerstone for any attempt of making presence and a strong foothold on the international market.

Encouraging, supporting and strengthening self-developed hi-tech brands should be given top priority to sustain the growth of foreign trade. It is on the basis of technological innovation that a more reasonable export structure can be realized.

This is not only the right approach to address trade disputes and improve China’s international competitiveness, but also the only way for China to grow from a “big” trading nation to a “strong” trading nation.

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