Wage rates

China's rising costs make buyers think twice

Wages are rising in China, making US and European companies look elsewhere in Asia for low-cost sourcing, says Rachelle Jackson

Better conditions, higher wages

China is losing ground as the premier source of low-cost goods, in part because of rising costs and a mandate from Beijing to discourage low-end manufacturing.

Industry associations in Hong Kong have reported a 15 per cent surge in costs over the past year. Chinese companies have been quoted as forecasting a 30 per cent rise in operating costs this year.

Increased labour costs, higher lending fees, tighter pollution controls and the elimination of preferential tax treatment for foreign enterprises are seen as the culprits. According to one source, 2,000 factories that make shoes and toys in the Pearl River Delta have closed down since 1 January.

These trends, coupled with the ongoing worker shortage in China, are causing some foreign buyers to look to other countries as part of a strategy to diversify sourcing risk. According to China's Ministry of Commerce, foreign direct investment from the European Union fell 29.4 per cent in 2007 and FDI from the US fell 12.8 per cent.

Where did that investment go? Analysts report that it is shifting to Vietnam, India and Cambodia, among other neighbouring Asian countries.

Asia wages rise

If companies are looking for lower labour costs, however, perhaps they need to look again. While it is true that wages in China continue to rise rapidly, wages in other countries have also been increasing.

The minimum monthly wage in China has risen by nearly 50 per cent in the past six years. Mirroring that, Bangladesh saw a 33 per cent increase in legal minimum wage rates in 2007, while Vietnam's wages rose 64 per cent between 2001 and 2008.

The catalyst of some of the wage growth can be linked to worker activism. Last year, workers took to the streets to demand higher wages in Bangladesh, Sri Lanka, Vietnam and Pakistan, among other countries.

Pay riots

Starting in January 2007, Bangladesh workers rioted in the streets, demanding their first wage rise in more than 12 years. Pakistani workers took to the streets in August after factory owners failed to implement a government-mandated 15 per cent wage increase.

Hundreds of factories in Vietnam have seen worker strikes over the past few years as workers protest for pay rises. And union groups in Sri Lanka are now mobilising workers to push for a salary increase that will take them closer to a living wage.

Little separates the average hourly minimum wages in China (38 US cents an hour), India (39 cents) and Pakistan (35 cents). Vietnam is on the high end of the wage scale with an hourly minimum of 45 cents. Sri Lanka (27 cents an hour) and Bangladesh (19 cents) are at the other end.

Yet comparing the highest-wage urban areas in each country tells another story, with China at the high end of the scale and Vietnam in the middle range.

In Shenzhen, China, the average lowest wage per hour is 66 cents – almost double the countrywide average. In Delhi, in India, the average hourly minimum wage is 46 cents, while in Ho Chi Minh, in Vietnam, it is just 31 cents.

To combat rising urban wages in China, factory owners have been shifting farther inward in China to the cheaper rural regions or even to Vietnam

Rising wages in China are focused in urban areas such as Shenzhen, where wages nearly doubled between 2001 and 2007. However, rural China saw slower growth, creating wage gaps between rural and urban areas.

Wages as sourcing strategy

To combat rising urban wages in China and a lack of rural workers migrating to the cities, vendors and factory owners have been shifting further inwards in China to the cheaper rural regions or even to Vietnam.

Of course, wage rates alone are not a sound indicator of future sourcing trends. Perhaps more than looking solely at wages, companies will in future give more weight to labour environments – including the ability of workers to mobilise and achieve better conditions for themselves. A happier, healthier work force is an asset in any supply chain.

While this traditionally low-cost region of the world may continue to see wage increases in the coming years, it is perhaps the workers themselves that will change their countries' role in the global economy. ■

Rachelle Jackson is director of research and development at Cal Safety Compliance Corporation.
rjackson@intlcompliance.com
www.cscc-online.com

For more information on ethical supply chains and sourcing see www.ethicalcorp.com