

# China's Surprising Dilemma

What happens when the “world’s workshop” runs out of workers?

**ASK SOMEONE IN** our industry, or any industry, for a short slogan describing the Chinese manufacturing juggernaut and you might hear phrases like *immense capacity, unfair monetary practices, government-supported, environmental concerns, unfair trade practices*, or a host of other admittedly pro-Western sentiments. But I never thought I would live to hear the term *labor shortage* used about China.

How could a land of well over one billion people lack the workers to fill positions in its manufacturing sector? Because it appears that is exactly what is happening.

I just returned from Taiwan and China and was surprised to hear from every customer, vendor and supplier that the local labor shortage is putting pressure on almost every sector of the Chinese manufacturing landscape. At the beginning of my trip, I had a single purpose for each firm that I visited. But after hearing about this issue during my first stop, I made a point of focusing on it with each successive visit to areas in Hong Kong (or more specifically, Guangdong Province), Suzhou, Shanghai and other locales.

For the past decade or so, business conditions in China have closely resembled those of mid 18<sup>th</sup> century America. Most US businesses at that time were located along the coastal regions of the Northeast. Close proximity to waterways helped early American businesses quickly move products from factories to a wide range of customer locations. It took many years for sufficient infrastructure to develop so that business could move into the interior states and still have economically feasible ways of getting newly created product to market. As business moved inward, population shifts began to occur as people followed jobs and commerce westward.

In China, commercial development was also a coastal phenomenon, beginning on a large scale in the areas between Hong Kong/Kowloon and continuing up the coast to Shanghai.

A major difference, however, between the early US and Chinese models is where the labor force originated. In China, prior to the great move toward capitalism, most people lived in rural areas. (Hong Kong, before it was turned over to China by the British, is the exception.) But then many Chinese people left their farms and home provinces and moved to urban areas in search of better jobs and a better life. The Chinese businesses in the coastal cities had a plentiful and ever-growing labor supply.

But whereas in the US, part of the labor force located on the coast moved inland with businesses and then established permanent communities there that spanned generations, many urban Chinese still considered their traditional rural provinces “home.” And now that manufacturing is exploding across

China, thousands of companies are setting up shop inland, where the infrastructure is in place to permit efficient movement of product, and province-to-province mobility – once restricted by law – is being eased.

With the home provinces now offering a plethora of employment opportunities, a great exodus of people who moved to the coast searching employment are now looking homeward for a similar position closer to family and friends.

As with all good ideas, once the word gets out, many people will try the same thing. The difference is that in China, the effect is multiplied a thousand-fold.

I have been told the exodus began first in the Greater Shanghai region, then moved down the coast to Hong Kong. The Chinese New Year gave many people a perfect opportunity to make the move as part of the holiday’s custom of returning to one’s birthplace. Thus, a labor shortage that no one would have predicted just a few years ago has suddenly taken hold.

I heard about this problem from those involved in the PCB industry, but could easily envision this phenomenon spreading to other industries as well. The customers and vendors I queried estimated that between 800,000 and 1.3 million people have abruptly left their jobs and moved from the coastal areas. This has created a huge vacuum in some businesses in the affected areas. Trained workers are now in short supply, and the hiring pool has shrunk to a level not seen before.

One might think that replacing workers in China would be easy. Not so. One of my customers ran a job ad for workers for a month and received only one response. This applicant was quickly hired, but left soon after as another, slightly better position opened up. All the people I spoke with expect the labor issue to ease at some point, but because of the enormity of the issue, none would estimate when things would get better. In other words, no quick fixes are on the horizon. Workers will need to be hired, trained and paid well enough to prevent them from moving to competing employers.

One reaction to this problem has been to send a lot of PCB manufacturing back to Taiwan. This influx of work has created a logjam in Taiwanese board houses and is creating a laminate shortage as everyone scrambles for material to manage the increased load. This is not a sustainable solution.

I didn’t think much could surprise me in this industry, but a labor shortage in China did come as a shock. Given the current dismal employment picture in the US, we may well wish we had China’s problem. But a labor shortage there is likely to affect a wide range of Western industries dependent on Asian manufacturing capabilities, just when our own much anticipated recovery is underway. It’s a trend worth watching. **CA**

## TOM COGHLAN

is operations director  
at Bare Board Group  
Inc. (bareboard.com);  
tom@bareboard.  
com.

