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PRESSURE ON CHINA TO INCREASE WAGES

Rising labour costs may in turn force firms out of country

By Peh Shing Huei – China Bureau Chief

Beijing: Foxconn has announced a massive wage increase at its factories in the southern Chinese city of Shenzhen, a move which could trigger industry-wide pay increase. The ripple effect of the latest 66 percent jump, which will see workers earning 2,000 yuan (S\$415) from Oct 1, may drive electronics firms out of the Chinese mainland to other Asian countries.

India, Indonesia and Vietnam are looking to profit from rising labour costs in China.

The pay rise followed a 30 percent raise announced only last week by Foxconn, as the world's biggest electronics manufacturer grappled with a series of bizarre suicides at its Shenzhen plants. "The wage increase will reduce overtime work as a personal necessity for some employees and make it a personal choice for many workers," Foxconn said in a statement, a clear response to accusations of sweatshop-style conditions at its factories turning out products for household name Apple, Dell and Nokia. Ten Foxconn workers have fallen to their deaths this year in Shenzhen, while another died at factory in northern China. A worker also died last month, with labour activists saying that it was caused by exhaustion. The Taiwanese company's troubles surfaces at about the same time that workers went on strike at Honda factory in southern Foshan city. The two events turned the spotlight on China's low-wage assembly line workers, who have powered the country's phenomenal economic growth in the past two decades and fed the world's consumption binge. Like Foxconn, Honda announced a pay increase for its workers of 24 percent. Their actions have led to fears that this could be the beginning of the end of China's reign as the factory of the world's consumption binge.

According to Professor Yuan Gangming of the Chinese Academy of Social Sciences, the companies obviously had no problem absorbing the bigger wage bill. "It shows the worker's wages have been too low. It's unreasonable," he said. At the same time, however, big companies have begun their search for the next cheaper option, which could provide the lax labour conditions that they had enjoyed in China since the early 1990s. Taiwan Electronics and Electrical Appliances Association chairman Arthur Chiao told the island's Economic Daily News yesterday that his group was helping China-based Taiwanese companies to move out.

They are looking for new factories in countries such as Vietnam, India and Indonesia as labour costs climb on the mainland. Even China's vast inland, with lower costs of living and lower wages, may not be a sustainable solution to the manufacturers, he said. "Taiwanese manufacturers have gradually moved their bases from coastal areas (in China) towards the interior, but may face limitations there in the next three to five years" as wages catch up, said Mr Chiao.

Analysts are already projecting that profits will be 10 percent to 20 percent lower next year for Foxconn, which is the largest employer in China with 800,000 on its payroll.

News of the huge wage hike hurt the share price of Hon Hai Precision Industry, Foxconn's Taiwan-based parent company. It went down by as much as 6.8 percent, the maximum amount permitted, before ending down 506 percent at a near 10-month closing low in Taiwan. In Hong Kong, Foxconn shares were suspended from trading. They had opened down 5 percent.

But analysts here cautioned against pressing the panic button prematurely, saying that the heavily export-reliant China is still a long way from losing its edge. "The Foxconn story is one of extremes and rarely seen since China started its reform and opening up policy," said observer Liu Erduo from Renmin University. "Since it is a standout, I can't see it having that big an impact on foreign companies." He added: "our findings in Jiangsu and Guangdong show that foreign firms are not looking to leave China yet. "And once the government steps in, the whole brouhaha would be over. The government does not want to see labour conflicts worsen because that would create a lot of social problems."