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LABOR PRACTICES IN CHINA AND ITS EFFECT ON THE COUNTRY'S ECONOMY

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Abstract

A major factor hidden behind the overall success of China is the cheap production of goods, infrastructures, and relatively cheap labor force. Subsequently, this research will show that some practices are not legal and transparent in the hiring practices of China's labor force. Labor regulations are being violated daily bases and the laws governing the matter are not being enforced properly. As a result China is managing to become one of the leading empires in today's economy. Moreover, this research will demonstrate that it is a tremendous task for the China's leading economists to create business and financial models to stay on track as the fastest-growing economy. This paper also rounds up to promote the adoption of radical governmental and financial implementations, instead of solely relying upon cheap labor to develop China's economic strata.

Keywords: Çin, Ekonomi, İnsan Kaynakları, İşçi Uygulamaları

Jel Code: F66

ÇİN'DE İŞÇİ UYGULAMALARI VE ÜLKE EKONOMİSİ ÜZERİNDEKİ ETKİLERİ

Özet

Çin'in ekonomideki genel başarısının arkasındaki faktörler; üretimi destekleyen altyapıları, nispeten ucuz iş gücü ve dolayısı ile ucuz üretimdir. Bu araştırma Çin'de iş gücü ile ilgili bazı uygulamaların illegal ve işe alma uygulamalarının şeffaf ve yasal olmadığını gösteriyor. Çin'de işgören hakları hergün ihlal ediliyor ve bu konudaki mevcut yasalar gerektiği gibi uygulanmıyor. Buna rağmen, sonuç olarak Çin günümüz dünya ekonomisine önderlik eden imparatorluklardan biri haline geldi. Ayrıca, bu araştırma gösteriyor ki Çin'in ekonomideki önderliğini ve en hızlı büyüyen ekonomi olma özelliğini koruyabilmesi için ticari ve finansal modeller oluşturmak zorundadır. Bu çalışma ayrıca Çin'in ekonomik tabakaları geliştirmek için ucuz işgücüne güvenmek yerine, radikal idari ve finansal uygulamaları adapte etmesi ve desteklemesi gerektiğini belirtir.

Anahtar Kelimeler : China, economy, human resource, labor regulations

Jel Kodu : F66

1. INTRODUCTION

In the past decade, China has become one of the world's largest forces regarding the world's economic development. By the rankings from the Business Insider article (June 2013), China is the second largest economy force, while the United States is still considered the number one; nonetheless most Americans believe that

China has taken the lead. Following China, the third largest force in economy today is Japan. Several questions arise with the statement above. The first and most important question is, how China became so important and powerful in the last 30 years, and whether the success they are having is sustainable. The answer to the first question lies behind the fact that China has a large population, and the labor employed is very affordable and cheap for the most part. China's success lies behind the changes in the

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world's business trends that have occurred in the last three decades. The lower transaction costs and different global rates of trade have enabled China to profit from their labor resources. Major factor that enhances China's economy is the Chinese government. The government allocates most of the resources and then directly or indirectly commands all the national assets and income. The important issue that rises with the success of China is the hiring practices in the country and whether they are fair and legal. The basic requirements of China's Labor Laws are very simple such as the equal treatment of employees regardless of their race or sex. There will be no employment for the children that are 16 years of age or younger, and the right for the workers to organize in the labor unions. The laws also set standards for the working hours and conditions, family leave, holidays, minimum wages. Each provincial government sets its own minimum wage standard. For example in Shanghai of the year 1999, the minimum wage was 33 cents when recalculated from Chinese Renminbi (Yuan) to American dollars. The minimum wage for the other cities was considerably less (Jackson, 2011).

2. MASSIVE AND INEXPENSIVE WORKFORCE: ESSENCE TO CHINA'S SUCCESS

In the first part of the paper we will be explaining the power of China in the world today and if their economy is on the way to surpass such a strong economy like the United States. From the statistics in 2006 China had a workforce of 795.3 million. The prediction is that by the year 2030 forty percent of the global force will come from China or India (Hays, 2008). There is not one sole factor of China's success. China in the moment has the second largest economy by the nominal GDP and the purchasing power parity, the United States is number one. China is the fastest growing economy in the world and according to the numbers China's economy growth is around ten percent per year in the last thirty years (Fogel, 2010). China is also the largest exporter in the world and the second largest importer in the moment.

The way China is today was not always the case. Specific policies and the change in the government structure led to the improvement in the last few decades. The road of success for China began in 1978 with two reformers; Li Xiannian and Deng Xiaoping. Their main argument was "Who cares if the cat is black or white as long as it catches the mice". With the influence of these two reformers China began to accept more pragmatic approach on political and socioeconomic issues. Very soon after that China adopted the capitalist economical approach. The focus was on raising the personal wealth and consumption and on the new management methods that have improved the productivity. Another factor that has contributed to the success is the fact that in the 1980's China has opened its borders to foreign investments.

This policy has opened a lot of doors for different large companies to enter the Chinese markets and establish their businesses. The private sector is the part of the economy that grew at the fastest rate and by the year 2005 for as much as seventy percent of the overall China's GDP (Bloomberg 2008).

A major factor that is hiding behind the overall success of China is the cheap production of goods and the relatively affordable labor force. China is the global leader in the labor-intensive manufacturing. China produces almost half of the world's shoes as well as clothes, household gadgets, toys, appliances, furniture, Christmas ornaments, utensils, and sunglasses. Interesting fact is that the majority of the American flags and hand-painted Jesus and Mary figurines sold in the United States are made in the factories in China! Most of the products that have the tag, "Made in US" on them have probably been produced in China or at least some parts of it. Since the economy in China is doing well the wages went up. In manufacturing the average wage in 2009 was around two hundred dollars per month and that was seventeen percent more than the year before (Hays, 2008). This wage of 200\$ per month represents a decent increase but it is still fairly low in comparison to the United States. China is able to produce the goods for very cheap which has put the rest of the world on its heels. This effect has been named "China price". For a lot of Americans this meant the loss of their jobs because a lot of different businesses have shifted their production from the United States to China but some other businesses such as Wal-Mart and other discounters that focused on the high volumes of production and low prices have benefited. Although the goods produced in China are very cheap, ironic enough they are on average more expensive in China than they are in the United States. One example for this would be an Apple computer. The price of the computer in Beijing is \$2,750 which is five hundred dollars more than it is in the United States. For instance, Nike shoes can cost a person as high as \$200 dollars if they are being purchased in the official Nike store in China. A good example of cheap labor force would be the Volkswagen factory. According to its executive "the cost of labor in China is nothing". Another huge factor of excellent Chinese productivity is the speed of the production. In 2009 China has accounted for 18.6 percent of the world's gross manufactured output (Hays, 2008).

What is in fact astonishing is the amount of profit that China generates from their products. The example would be a pair of sunglasses. They can be made in China for the cost of a single dollar and then be sold in the United States for thirty-five dollars or even more. That is a huge profit margin in comparison to the initial cost.

All the factors that we have mentioned above have put China on the top of the world's economic outlook. Nowhere else on the globe can such a production level be found as the one that China has. It is due to high volumes

and the fast production for very cheap labor wages and cheap materials. However, that might not last for much longer. “Looming demographic changes are large, irreversible and inevitable” (IMF report). The key age groups for China, which are the workers around the age of twenty, is neither willing to spend their lives living in small company dorms nor willing to work for a minimum wage. Labor shortage will catch up with the fantastic productivity some time in the future and it is inevitable. This event could cause the wages in China to keep growing which would mean good news for the rest of the world. For the industries that are of interest for the United States- higher-end manufacturing or technology and research in heavy fields. China will fight to remain competitive, but once the country's wage advantage disappears, the higher value-added jobs will become more important.

3. ISSUES OF ILLEGITIMATE LABOR PRACTICE

In the second major part of my research paper we will discuss the illegal labor practices, and the scandal of child labor in China. To start with, working conditions in Chinese factories are not adequate or appropriate for workers. The majority of time employers discriminate on the basis of height, looks, health, home province and age. Some workers are not considered because they are too ugly or too short or have had hepatitis in the past. The most typical advertisement for the factory job would be: “Age 18 to 35, middle school education, good health good quality, attentive to hygiene, willing to eat bitterness and work hard, women 1.66 meters or taller, people from Jiangxi and Sichuan need not apply” (Hessler). Workers often quit because they work too much overtime and the compensation is not very high. Sometimes workers go for months without getting paid and in case they quit the job they never receive the pension or the severance pay that has been promised to them. The reason that is behind child labor lies in the fact that a bulk number of families in China are very poor so that every member of the family capable of work is trying to find a job. There were several cases of reports of child labor lately. Samsung Electronics Co. audit team has found out that a lot of workers in China were working overtime hours and were not paid for it. Furthermore, they were getting fined if they were absent from work or tardy. After the investigation it appeared that children were doing the same amount of work as the adults did but they were getting only around 70% of the pay that the adults got. Other accusations were saying that the working conditions were horrible; some called them “inhumane”. After this incident Samsung is auditing 144 more suppliers in China and the reports from Samsung are saying that the illegal overtime will end by the end of 2014. Another incident in Chinese factories has occurred

at two Microsoft factories where conditions for work were inhumane. Both of the factories are based in Guangdong. The company has been accused of illegal labor practices including the employment of a large number of children from the age of 16-18. Microsoft has been warned to change their work practices and to comply with the law. The investigation has been conducted by Dongguan human resources bureau following the report from the United States based on the non-profit organization Nation Labor Committee (NLC). The report that came from the investigation was shocking. Workers had long working hours, a low pay, insufficient food and few freedoms for young laborers at the KYE Systems Corporation factory in Dongguan, South China's Guangdong province. The report also included that the children were working in 15-hour shifts for around 50 cents per hour! Moreover the children were prohibited to use the bathroom during the working hours and they all slept in a 14-person dorm room. They were not allowed to leave the factory when they wanted to, only on few occasions when they were allowed to.

According to these two stories mentioned above, it is obvious that China's usage of illegal practices for the production has been increasing. They are taking advantage of the fact that China has numerous workforces and to make a living most of the people are willing to work in awful conditions. As we mentioned earlier, children will go to factories and work because they also need to contribute somehow so that the family can make enough money to feed and clothe everyone. A lot of different laws are being broken such as terrible working conditions, a lot of overtime that is not being compensated although workers are penalized if they are late for work. The laws exist to protect the workers but they have to be stricter toward the employers and give more benefits to employees. Another issue that is obvious is the reinforcement of the existing laws. (Maass, 2013)

4. LABOR ADVANTAGE: IS IT STILL THE BEST FORMULA FOR FUTURE GROWTH?

The important question that has to be addressed is whether China will be able to sustain the rate of success it has been experiencing just by solely relying on its advantage of massive and cheap labor. My research findings will indicate that there are much more significant factors that need to be improved for China to continue its growing trend.

According to Wu (2013), China will keep growing but they will meet some bumps on the road. For Wu the biggest challenge will be the incomplete reform as the semi-market and semi-command economy system will result in severe economic and social problems. Although the private sector in China is at the constant growth rate in the last thirty years, the state still controls key sectors of

banking, petroleum, railroads and telecom. The government also holds huge amounts of land that they acquired from peasants and poor people at very low prices. The law in China is still favoring the government body. Governments at all levels have enormous power over the allocation of important economic resources according to Wu. If China will sustain the present growth they need to privatize more business sectors and take the power from the government body. Other concerns that Wu expressed are inflationary pressures, corruption, and “crony capitalism”. The transition from socialism to capitalism is never smooth and a lot of people are raising their voices toward the government to give some power to the people.

China is lately facing serious issues that are affecting their recent growth. Toward the end of 2012 China experienced elevated amount of debt and a bubbly property market. The government took a step forward and helped the way to recovery. The first quarterly figures for 2013 are showing that China is back on track but certain concerns still exist because of the stressed corporate balance sheets and a pervasive local government bailout culture. According to Alistair Thornton, a senior China economist, this is not a healthy way to recover. From the data shown in the first quarter of the year the country's GDP has picked up equal to 8% which is the increase of 0.1% from the previous quarter. The large reason of recovery in comparison with the previous quarter is the fact that government injected \$157 billion in the infrastructure (Qing, 2012).

The concern that China has is the presence of the shadow banking system, which now accounts for a large portion of debt that is used to fund building projects in the absence of the bank credit. The shadow banking system is estimated at 22.8 trillion Yuan, which is \$3.7 trillion in American dollars. That number is equivalent to 44% of GDP and 25% of the total credit according to Credit Suisse (Harjanim, 2013). Because of the rising concerns over the elevated debt which is caused by the rise of shadow banking and the rapid credit growth the prompted rating agency Fitch has downscaled China's long-term local currency credit rating to A-plus from AA-minus.

According to Chang (2011), the author of “The Coming Collapse of China” the deflation rate in the manufacturing sector will slow down the economy completely. China does have a great GDP growth, but the deflation rate and the growth do not go together in the same sentence. Chang (2011) added that economy this year will grow at the rate of 4-5 % but the government will likely report it at around 7% at the year-end.

After all the issues that China is facing and will face in the future there are plans prepared already to overcome those issues and to keep the country moving forward.

According to the Chinese economic researchers there are several reforms needed. China needs reforms in land

market, labor market, and the capital market. The reforms needed in land market include the changes in the rural area to capitalize the land of the farmers, which also means giving the farmers full property rights to land and establishing a unified land market. This will mean an excellent means of liquidity injection and it may also act as the starting engine for the next future boom of the Chinese economic growth. Another idea is to create the ownership registration and certification of the rural land, which already started in 2011 and it is already serving as an excellent preparation for the future reform. Next, what China needs is to do reforms in labor market. They need to promote the life in urban areas. Further reforms are necessary in the social security and public goods sector. Finally by deepening reforms in the labor market, population agglomeration will be more developed in the metropolitan areas. The improvement of the industrial organization, as well as the spilling over of technology will enhance TFP. Lastly China needs reforms in the capital market. Market-oriented and asset-management-based reforms are needed to insure the sound development of Chinese financial market in the future.

5. CONCLUSION

In the paper, we have shown that the concurrent labor practices enabled China to become one of the largest economies all over the globe. Earlier in the paper we have mentioned that production costs are very low and the price of labor is cheap and affordable. However, there have been many issues regarding the labor treatment. Chinese companies have been responsible for the exhaustion of the workers, inhumane working conditions, very low hourly salary and the employment of child labor. The companies such as Apple and Microsoft have been involved in scandals surrounding the labor issues. To be able to produce the product at the very fast pace and sell it in other countries for the profit of 35 times per unit (sunglasses) have played a huge role in the process of China gaining economic power. The laws exist to protect the workers but they have not been followed through. There is a law where the company is not able to give a job to 16-year old boys but regardless the laws the boys are still working in the factories for the minimum wage. The reports state that boys are working the same amount of hours as the adults do but they only get 70% of the compensation that the adults get. Because of many incidents that have happened in the companies and their factories the Chinese government passed the law in 2008 that gave more power to the workers. This law has given better protection for the employees including the workers rights, signed and written contracts for all the employees. This event has also raised the cost of labor. A lot of firms are complaining that because of that law their labor costs have risen as much as 40%. Now with the new law firms have to pay the

minimum wage, give benefits to the workers and register all the employed workers. This has caused some of the established firms in China to move their business elsewhere. Even though this new law has been passed the labor issue in China still exists. It is not enough just to pass the law it is also important to enforce it. The implementation and enforcement have always been the biggest issues surrounding the labor law in China.

6. LIMITATIONS OF THE RESEARCH

There are still lot of questions hanging over the success of China and the labor laws and practices. As we mentioned China has been successful because of the cheap labor but with all the changes with labor laws workers are getting more power. Now firms in China need to pay their workers larger amounts of wage which is forcing some of them to leave the country and take their business elsewhere. The United States are very happy with that outcome because it brings a lot of the jobs back home. China needs to be on extreme alert when it comes to child labor. Because the workers now need to get paid at least a minimum wage, firms choose to have children do the work and they do not register them. We believe if China does not solve all the existing issues, and does not align with the rules of international business they will eventually lose

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all the progress and the economy will start slowing down tremendously.

7. FUTURE RESEARCH

It is a tremendous task for the leading economists of China to create business and economy models that will keep China on track of the fastest growing economy. Instead of solely relying upon cheap source of labor, China should focus more on other radically governmental and financial implementations. First, China has to privatize larger parts of their properties and get the power out of the hands of the government. Second, the economy needs to be open to the outside world, get in line with the world and get aligned with international standards. In addition, China needs to reform its state of economy from rigid-government-dominant into flexible-market-oriented. Other resolutions would be to control the price of real estate, to expand the real economy, to depreciate RMB and to adopt the expanding monetary policy and stringent fiscal policy.

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