With factories closing, is the 'China Dream' evaporating?

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The long journey from a village rice field to a concrete dorm room, far from home and family, has been endurable suffering for millions of Chinese migrant workers, who reached for a piece of the 'China Dream' - a popular term for the promise of a better life.

But in light of the general economic slowdown, where order books are becoming thinner and more factories in the manufacturing sector are laying off people or closing down their operations entirely, the question is if the 'China Dream' has started to evaporate.

30-year-old Li Jiang and his wife left their home in Hubei province, where their 3-year-old daughter lives with her grandparents, to work in Shenzhen. They left home in hope of a better life, but Mr Li lost his factory job in Shenzhen and has struggled to find new work ever since. For him, the China Dream is fading.

According to the Wall Street Journal, which interviewed Mr Li, he returned from a weeklong holiday to find that the factory, where he and his five family members were working, has been closed. In notices on the factory gate, the company blamed a credit squeeze and its own bad management.

Number of strikes at record high

Mr Li told the WSJ that he and some 1,000 workers took to the streets. The next day 3,000 people protested. “I kept calling people to join,” Mr Li told the Wall Street Journal. “The more the better to build our strength.”

Mr Li's actions are not unique in today's China, where strikes and protests against factory closures, mergers and relocations are increasing.

According to the Hong Kong-based civic group, the China Labour Bulletin, strikes and labour protests nationwide nearly doubled in the first 11 months of 2015. The China Labour Bulletin, which tracks strikes and protests nationwide, reported 301 incidents in the month of November - the highest monthly total in 2015. A major geographical focus for the worker protests has been recorded in the Guangdong province, China's manufacturing heartland.

Kim Fæster, a senior economist with Jyske Bank told gbtimes that the Chinese markets are dealing with over-capacity, with companies making wrong growth forecasts of 10 per cent like in previous years.

“The factories have adjusted their capacity to be ready to meet the market demands, which means that they have been hiring more people. The problem is that their forecasts have been wrong. Growth is only around 7 per cent and the factories are left with an over-capacity in the form of too many employees, that they will then have to let go,” he explained.

Many strikes occur after factory closures are announced, and protesters are not only protesting against the factory owners, but also to get the government's attention. According to China's Labour Bulletin, protesting workers in many cases marched on to local government buildings. But the general transformation that is happening in the Chinese economy can, according to Kim Fæster, also be a cause for unrest among Chinese workers, and a reason why the protests take place in front of government buildings.

“The jobs in the new economy is going to come in the service sector, but the wages in that sector is lower than in the traditional industry, like the building or manufacturing sector,” he says. “This obviously creates a dilemma for individual workers who have lost their jobs, and are struggling to find new jobs that pay well. They may also find that they are not qualified for other production jobs, as Chinese companies are beginning to develop more sophisticated products that demands more training,” says Kim Fæster.

The senior economist points out that he is full of praise for how China has lifted hundreds of millions out of extreme poverty, but he doesn't reject the assumption that the rewards of this success story could now almost be fully reached.

“The situation won't get better”
According to Stanley Lau, former chair of the Federation of Hong Kong Industries, a trade group for 3000 manufacturers, the decrease in manufacturing factories and jobs is not going to end soon in the south. “The situation won’t get better,” he told the WSJ in early December, specifically pointing to the fact that year-on-year increases in wages were rising too much for Guangdong companies to stay competitive.

This is not the first time Mr Lau has made this point. In an angry comment to the Financial Times on January 4, 2012, Mr Lau, then deputy chairman of the Federation of Hong Kong Industries, lambasted the city of Shenzhen for raising its minimum wage by 15.9 per cent, saying “Shenzhen doesn’t care whether businesses struggling under the harsh economic environment are going to live or die.”

Four years later, the results to back up Mr Lau’s prediction that the wage increases were going to kill businesses emerge. The Chinese government does not release statistics on factory closings. But according to an analysis by Justina Yung of Hong Kong Polytechnic University for the Federation of Hong Kong Industries, the number of factories owned by Hong Kong companies in southern Guangdong province fell by a third in 2013 from a 2006 peak.

Mr Lau’s point is that businesses, for example, garment makers, will look to places with lower wages where it is cheaper to produce. According to the Economist Intelligence Unit, China’s average labour cost is now two-thirds higher than that of Vietnam.

This does not help Li Jiang who is without a job and who left his home to look for a Chinese dream like many other Chinese workers before him. The despair that he feels is maybe shown most clearly in the comment he made to the Wall Street Journal that he only sees his 3-year-old daughter once in a year. “When I see parents in Shenzhen able to live with their children, I feel sad and helpless,” he told the WSJ.