The China story in 2011 is likely to be one of continuity and change. Central and Provincial governments will continue to be highly active in the labor market in order to prevent social unrest and ensure economic growth. The tight labor market conditions mean that employers will continue to struggle with recruitment and retention of workers, rising labor costs and increasing labor militancy. The wild card is inflation. If food, housing and other costs keep increasing all of the factors mentioned above will be exaggerated. Workers will demand wage adjustments and will be ready to strike if they are not made. Provincial governments will actively intervene to raise minimum wages and employers will be squeezed by higher input costs and lower export earnings due to the appreciation of the currency and greater competition from other low-cost exporters. One of the unknowns relates to the All China Federation of Trade Unions (ACTFU). Does it become more involved in grass roots trade union work in order to prevent industrial unrest, or does it continue to focus on a nominal numerical increase in membership and collective agreements? The answer is probably both, depending on the province and even the city or municipality.

1. **Labor Shortages/Tight Labor Market.** This has actually been the case for a lot longer than many commentators realize, although the financial crisis granted temporary relief to those business that were still hiring. Now the shortages are back – Guangdong Human Resources Department, for example, estimates the shortage in the province at 900,000 workers. Shortages will continue to be felt for two reasons – the push factor of rural poverty has been ameliorated and the pull factor of good jobs with career prospects is in short supply because too few companies have the human resource policies to attract and retain workers in this market.

2. **Rising Wages.** Typical of a tight labor market, this will be a fact of life in the Chinese economy for some time to come because the Chinese government supports it, both as a means of avoiding social conflict but also, and equally importantly, as a means of promoting internal consumption and rebalancing the economy.

3. **Inflation**, especially in food, housing and energy costs. These costs make a big dent in workers wages and they will make their concerns known immediately. Government will certainly act to contain price rises but they will not be able to avoid some increases.

4. **Increased Social Security Coverage.** One of the government’s greatest concerns has been the lack of adequate social security coverage, especially for migrant workers. This has had the effect of constraining consumption and recruitment, the former since workers had to save for old age, unemployment etc., and the latter since migrant workers faced discrimination when working outside their home districts. The law provides for five forms of social insurance – old age, unemployment, health, accident and maternity – and allows premiums to be paid to one locality and benefits
to be drawn in another. In finally adopting the Social Security law (after 16 years of procrastination) the government hopes to promote increased mobility for workers and increased stability in employment since workers would not have to return home to claim benefits. On the other hand, the new Social Security law, combined with the Labor Contract law of 2008, means higher labor costs for employers.

5. **Industrial Unrest?** This is such an obvious risk in the present labor market that all employers should be moving proactively to improve labor-management communication and adjust wages and benefits, especially non-wage benefits that cushion inflation in food and energy costs. Unfortunately employers in China have typically responded very slowly to such pressures and it has often fallen to Provincial and City authorities to make the necessary wage adjustments and to resolve disputes with workers. This will continue to be the pattern, but many of the official interventions will be too late to avoid disputes so we can expect to see more strikes, mainly over wages, in more regions, including central and western provinces.

6. **The Changing Role of the ACFTU.** There has been an internal debate for some years now about whether to emphasize the organization of workers on the shop floor or whether to continue to target management. The decision has mostly been to talk to management in order to gain recognition and to settle for the two percent of payroll to which the union is entitled. This gives the union only a nominal presence in the enterprise but enough to allow them to play the role of defending the national interest (as distinct from the workers interest) in the event of any dispute. Workers however, are no longer willing to make sacrifices in the national interest and are shoving the union aside when they have wage or other demands to make. The ACFTU cannot afford to be relegated to irrelevance though and the Communist Party needs them to play the role of social safety valve letting off pressure that might otherwise build up to explosive levels. We can therefore expect the ACFTU to react with more vigour this year, probably by emphasizing organization of workers and the signing of collective agreements. The ACFTU is limited however, in that it does not have the skilled officials necessary to do this on a national scale and it will take a few years to get them retrained. Expect a lot of confused and contradictory responses in the interim.

7. **More Provinces are Promoting Wage Bargaining.** The latest example of government intervention in the labor market is the official push for collective agreements, particularly on wages. A number of provinces and cities have adopted laws re-affirming workers right to collective bargaining in order to overcome the reluctance or inability of employers to react to wage pressures and worker discontent. Not only do these provisions impose a duty to bargain, some go further and require "good faith bargaining." Workers may request wage negotiations if the productivity or profits of the company change, the cost of living rises or local wage guidelines are revised. The ACFTU has thrown its weight behind this move but unlike in the past, they now want wage bargaining to go beyond minimum wage increases.1

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1 See for example “Regulations on Collective Bargaining and Collective Contract in Companies of Fujian Province”, passed on Nov 29 during a meeting of the Standing Committee of Fujian People’s Congress and to be enforced from Jan 1, 2011, replacing the current “Regulations on Enterprise’s
8. **Government’s Big Challenge** in the next decade is to reconcile economic development goals and social stability (i.e. workers welfare). This will be a tough one, but in fact, they see these as complimentary. Raising wages and providing greater social security coverage will boost consumption and help to balance the economy. Stimulating consumption through wage increases is an explicit part of the 5-year plan.

9. **Risks to watch out for:**

   **Interns:** Many Chinese workplaces now have relatively high numbers of interns and the Foxconn case has focused a lot of attention on this practice. This is not a problem *per se* and there are legal arrangements for internships, but the percentage of interns in some companies is rather high and the suspicion is that these arrangements are designed to circumvent the Labor Contract Law. Expect local authorities and campaign groups to scrutinize these arrangements in 2011.

   **Foreign Workers:** The labor shortages in some regions, and some industries in particular, have led to a demand for imported labor. Vietnamese and other recruiting firms have stepped in and are offering workers at very attractive rates. Many of these workers are not properly documented however and the agencies supplying them are not always scrupulous. Employers would be well advised to double-check the bona fides of the workers and the agency supplying them.

10. **Watch This Space.** The central government is widely expected to take a run at issuing a national wage regulation in 2011. Previous attempts have run into opposition and proved technically challenging, but the authorities are reportedly working on a regulation that will define wages and address issues such as wage bargaining and equal pay for work of equal value.