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China labour costs soar as wages rise 22%

By Simon Rabinovitch in Beijing

Chinese labour costs have soared this year despite a slowdown in the broader economy, according to new official data that showed an average 22 per cent rise in minimum wages.

The government, which has made it a policy priority to boost incomes, welcomed the development, but economists warned that it would add pressure to companies already struggling against weak global demand.

As of the end of September, local authorities in 21 of China's 31 provincial-level regions had increased minimum wages by an average 21.7 per cent, the ministry of human resources and social security said. Several more have also promised to raise minimum wages before the end of the year.

Compared with developed markets, labour costs in China are still low. The highest minimum wage is in Shenzhen, an export hub next to Hong Kong, at Rmb1,320 ($207) a month. In hourly terms, Beijing workers are the best paid, with the floor set at Rmb13 ($2.05) an hour.

But compared with other emerging markets, China is quickly getting more expensive. The hefty increase in minimum wages this year comes on top of similar gains over the past two years.

The effects are beginning to show. China's share of low-end manufacturing imports in the United States has peaked and is now declining, according to UBS. Cheaper countries in Asia, especially Vietnam and Bangladesh, have been the main beneficiaries, eating into China's market share.

Increasing the minimum wage is, in part, a method used by the Chinese government to nudge exporters up the value chain, encouraging them to produce more sophisticated goods.