

INTERNATIONAL BUSINESS

Even as Wages Rise, China Exports Grow

By KEITH BRADSHER JAN. 9, 2014

HONG KONG — Cheng Chunmeng, the general manager of a manufacturer of colorful children’s chairs in east-central China, gave his workers a 30 percent raise last year to keep them from leaving. His labor costs are rising even faster in dollar terms, as the Chinese currency slowly climbs against the United States dollar.

Yet Mr. Cheng, like many Chinese exporters, enjoys growing sales to the United States. “I saw a remarkable increase in orders from the United States starting in March, and getting better and better since then,” Mr. Cheng said. “I feel 2014 will be an even better year.”

Export gains like Mr. Cheng’s suggest that despite years of predictions of trouble for China’s export juggernaut, it has not yet been derailed by fast-rising costs for blue-collar labor, by an appreciating Chinese currency or by foreign investment shifts toward other, lower-wage Asian countries.

China announced on Friday morning its largest annual trade surplus in dollar terms since 2008, as the surplus widened another 12.8 percent compared with 2012, reaching \$259.75 billion.

China has kept its export machine running even while wages rise. Blue-collar pay has soared between fivefold and ninefold in dollar terms in the last decade, wrecking China’s reputation as a low-wage place for export-oriented manufacturing. Rocketing wages and benefits reflect an acute shortage of manufacturing labor, as a younger generation goes to college instead of heading for factories and as rural China has mostly run out of young adults to send to the cities.

China’s exports, while growing more slowly than a few years ago, are still far from stalling despite the disappearance of its advantage in labor costs. Chinese exporters say they have been able to keep prices low and retain overseas customers because factories are becoming more productive. Much of

the manufacturing has stayed in China because the highly developed supply chains leading to and from the factories remain among the best in the world.

“We haven’t started thinking of moving to another country,” said Xiang Wenwei, the sales director of the China Mybaby Group, a 3,000-employee manufacturer of baby strollers in Ningbo that makes and assembles all of its major components. It relies on a dense web of suppliers near the factory for everything from raw materials to factory equipment maintenance.

The trade gains for China are magnified because over the last several years many companies have shifted the production of components from high-wage Asian countries like Japan and South Korea to China itself. So China is producing more of the value in each product, and not just doing the final assembly of products produced elsewhere.

China has begun to account for more than half the American trade deficit in some months, including last November, partly because of rising production of shale gas and shale oil that has reduced America’s need to import energy. China was only a quarter to a third of the American deficit before the global financial crisis began in 2008. As the American economy continues to improve, economists predict that Americans will import even more from China.

“The pickup in China’s trade surpluses could lead to rising trade tensions if they are perceived as holding back job growth in the U.S. and dampening the economic recovery,” said Eswar Prasad, a Brookings Institution economist specializing in China.

The gradual recovery in demand in the United States and Europe is being partly absorbed by Chinese exporters instead of stimulating longer hours and further investment at factories closer to home. The unexpected strength in China’s export sector has weakened the West’s economic recovery and retarded job creation in the United States and Europe.

Asked this week for their view on China’s trade surpluses, United States Treasury officials reiterated their opinion that the renminbi, China’s currency, remains significantly undervalued, which China denies, and said that rebalancing the Chinese economy remained incomplete.

The composition of the American trade deficit with China is also shifting in ways that could affect employment in the United States, according to the

latest American data, released on Tuesday. The American deficit is increasingly in goods classified by the United States Commerce Department as advanced technology products, notably consumer electronics, while starting to shrink in categories of lower value like shoes.

Chinese leaders and some economists have contended for years that a decline in China's export competitiveness is imminent, but their country has continued to post trade surpluses. They have used their predictions of slowing exports to justify resistance to pressure from Washington for faster appreciation of the renminbi against the dollar. The renminbi rose only 3.1 percent against the dollar last year, and weakened 1.2 percent against the euro.

The question is how much longer China can remain the dominant exporter. Many economists still predict trouble ahead for Chinese exporters. "Even if there is an increase in the trade surplus, this is temporary," said Diana Choyleva, a China specialist who is the head of macroeconomic research at Lombard Street Research in London.

She noted that when calculated in renminbi and adjusted for inflation, China's exports actually fell in some months last summer, although they have strengthened considerably since last October. China's trade surplus is also less than half as large as a share of national economic output compared with five years ago when the surplus was slightly larger in dollar terms. The Chinese economy has grown nearly 80 percent in nominal renminbi terms since then and doubled in dollar terms.

Export figures for China were exaggerated by a few percentage points early last year as exporters overstated their shipments to circumvent Chinese controls on moving money into the country to speculate on further appreciation of the renminbi. But while some overstating of shipments may still take place, the strength in exports in recent months appears more genuine, particularly compared to an artificially high base of exports a year ago, said Louis Kuijs, a China economist in the Hong Kong office of the Royal Bank of Scotland.

"I have much more faith in the veracity of the numbers now," he said.

In separate interviews this week with nearly a dozen Chinese exporters, at Hong Kong trade fairs or by telephone, all said that their biggest problem lay in labor: finding enough blue-collar workers and paying for their soaring

wages.

Mr. Cheng said that a decade ago he paid about \$75 a month for entry-level industrial workers and provided virtually no benefits. Now, he said, his 200-worker business, the Hangzhou Luyi Arts & Crafts Company, pays \$570 a month plus \$100 a month in government-mandated benefits.

That works out to compensation roughly three times as high as in Indonesia, four times as high as in Vietnam, five times as high as in Cambodia, and as much as 10 times as high as in Bangladesh. But all of those countries have other problems, such as overburdened, unreliable electricity grids, which force companies to install costly generators and buy expensive diesel instead.

Like many companies in China, Hangzhou Luyi has responded to surging wages with increased investments in automation. "This machine takes the place of five workers," Mr. Cheng said, sitting in a booth at a Hong Kong trade fair this week and pointing at a poster on his wall of a computer-controlled, die-cutting machine for producing chair components.

Similar investments at factories across China mean that fewer hours of labor typically go into each product. So labor costs per unit do not rise nearly as quickly as wages.

Extremely heavy investment in new factories and new equipment, as the state-owned banking system continues to pump out credit at a remarkable pace, has also created considerable overcapacity. Exporters are unable to raise prices without losing overseas markets to nearby rivals. This prompts managers like Chen Yaping, executive director of the Zhejiang Daseng Stationery Company, a toymaker in Yiwu City, to focus increasingly on research and developing their own brands.

Foreign investment in China has stagnated while surging in Southeast Asian rivals like Cambodia, Indonesia and Vietnam, setting off hand-wringing in Chinese media. But China still invests heavily in China. Domestic investment dwarfs foreign investment elsewhere in the region, leaving Chinese entrepreneurs and state-owned enterprises with more than enough cash to keep buying machinery.

A result of rising productivity and manufacturing overcapacity is that average prices for American imports from China have actually dropped 0.9 percent in the last year even as the renminbi has risen and Chinese wages

have soared, according to data from the Bureau of Labor Statistics in Washington. That decline in prices has kept the pressure on Western competitors — and kept Chinese exports buoyant.

Hilda Wang contributed reporting.

A version of this article appears in print on January 10, 2014, on page B1 of the New York edition with the headline: Even as Wages Rise, China Exports Grow.

© 2014 The New York Times Company