Losses mount in Chinese export industry

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Light export industries in China are continuing to face massive losses, shedding jobs and moving operations either abroad or to lower-wage regions of China. The immediate triggers of the downturn—the political and commercial consequences of the US financial crisis—are exacerbating working class discontent over low wages, pollution and poor working conditions.

China's textile industry, which exported products worth U$176 billion in 2007 and directly employs roughly 20 million workers, is facing a major slowdown. January-February 2008 production figures showed 5.7 percent growth, compared to the same period in 2007, whereas growth during 2007 was 19 percent—which was itself the slowest growth rate since 2003. In Guangdong, the southeastern province nearest Hong Kong that is the centre of China's export industry, there was an unprecedented 11.3 percent fall in output.

There was an immense fall in textile output in Guangdong—32.9 percent—from January to February of this year, which was attributed partially to the massive snowstorms that accompanied February's Lunar New Year holidays, but also to weakening demand from the US and Europe.

Export difficulties hit larger firms as well as smaller, less efficient operations. Gordon Yen, executive director of Fountain Set Holdings, a Hong Kong garment maker with US$7 billion yearly revenue, told the *China Daily*: "About 60 percent of our garment orders are indirectly tied with the US market. We worry that exports to the US will see a drastic drop this year as a result of the slowdown in the country's economy."

A recent survey by the China Cotton Textile Association found that 49.2 percent of firms in 17 Chinese provinces were considering shutting down, and 44.4 percent were trying to sell export-oriented products on the domestic market.

China's shoemaking industry, which supplies 60 percent of world demand, is also shedding jobs. In Guangdong, approximately 1,000 firms (20 percent of the total) shut down in 2007. According to Li Peng, general secretary of the Asian Footwear Association, the industry laid off between 150,000 and 200,000 workers and cut roughly 15 percent of production capacity.

Factory closures are expected to continue in coming months, as firms face fierce price competition and low bids on their goods from importers. According to an estimate by the Federation of Hong Kong Industry, 10 percent of the 60,000-70,000 Hong Kong-owned factories in Guangdong's Pearl River Delta will close in 2008.

Chinese firms face both revenue and cost pressures tied to global economic tensions. The recent explosion in the world market prices of food and raw materials has particularly affected China's resource-intensive manufacturing industries.

This February, Chinese steelmaker Baosteel increased steel prices by 20 percent after absorbing a 65 percent rise in iron ore prices from Brazilian and Anglo-Australian mining companies. Wages are also increasing, as workers try to compensate for fast-rising food prices—notably for pork (up 55 percent in 2007), cooking oil (up 29 percent) and vegetables (up 24 percent).

Under US threats that it would impose protective tariffs against Chinese goods, the state has agreed to two unfavorable measures on the revenue side: letting the yuan rise against the US dollar starting in 2005, and decreasing export rebates it pays to manufacturers of certain commodities in 2007.

The dollar, which on April 10 hit a record low of 6.9916 yuan, has fallen 14 percent against the Chinese currency since 2005. The dollar amounts proposed to Chinese manufacturers by US importers, who aim to keep US prices steady for cash-strapped US consumers, are thus translating into smaller amounts of Chinese currency. A Chinese garment manufacturer in Ningbo, a major export port near Shanghai, told the *International Herald Tribune*: "Each percentage point rise in the yuan means a half a percentage point loss in our foreign exchange earnings."

Beijing's export rebate cut is targeting polluting industries or industries "likely to cause trade disputes." Rebates for clothing and most textiles were cut from 15 to 11 percent, and for some high-polluting products such as chlorine, textile dyes, and rubber, they were eliminated entirely.

Harley Seyedin, president of the American Chamber of Commerce in South China, based in Guangdong's capital city, Guangzhou (Canton), told *Business Week*: "The end of rebates has raised the cost of manufacturing many goods by 14 percent to 17 percent at the factory level."

These developments are particularly serious for light industry, where many firms are smaller and have extremely thin profit margins. A survey by the China National Textile and Apparel Council found the textile industry's average margin was 3.9

percent.

However, the bottom two thirds of firms reported a profit margin of 0.7 percent, and these firms realise only 20 percent of the industry's total profits. According to the *Taiwan Economic News*, rebate cuts will slash 3 billion yuan from the profits of the Chinese tire and rubber industries, which have average profit margins of 2 percent and depend on rebates for 40 and 60 percent of their profits, respectively.

These measures are Beijing's response not only to tensions with the crisis-stricken US economy, but also to energy and ecological problems for which it has no viable solution besides simply shutting down large portions of industry.

China faces spiraling increases in the cost of oil on world markets, as well domestically produced coal, which generates 70 percent of China's electricity and is sold on largely unregulated markets. Electricity-generating firms are still in large part state-owned, and Beijing has not deregulated electricity markets for fear of further increasing costs for Chinese businesses. As a result, private electricity firms have shut down operations and manufacturers face rolling blackouts and massive electricity shortfalls—reaching 12,000 MwH for Guangdong province and 1,200 MwH for neighboring Guanxi province in March.

State officials are also trumpeting "green policies" and shutting down some heavily polluting firms in the lead-up to the Olympics, and also out of fear that pollution is becoming a focal point of seething social discontent in the Chinese masses. According to the state-run *China Daily*, a 2007 government survey found that cancer was the leading cause of death as a result of "air and water pollution combined with widespread use of food additives and pesticides."

Certain villages near chemical plants or heavy metals mines, such as Shangba in Guangdong province and Huangmenying in Henan province, have become popularly known as "cancer villages" as a result of cancer epidemics attributed to badly polluted water. According to the BBC, 320 million people nationwide are forced to rely on polluted drinking water. Economist Michael Kurtz told *Business Week*, "Environmental degradation has become a political stability issue in parts of China."

China's new labour law, passed in 2007 but which went into effect early in 2008, also seeks to appease growing working class discontent by requiring certain elementary standards: workers must receive a written contract (more than 40 percent did not prior to passage of the law), firms must pay into a retirement and insurance fund, and wages must be paid on time. According to the *Taiwan Journal*, even these minimal provisions—and their doubtful enforcement by Chinese officials—are expected to increase labour costs by 20 percent in China.

Plant closures, layoffs, and pollution problems come amid signs of a potential eruption of discontent in the Chinese working class. The *China Labour Bulletin* reported a sharp rise in filings at the Guangdong Office of Labour Dispute Arbitration since passage of the new labour law—up three- to fivefold in most districts, with Zhuhai reporting 15 times more filings. The Office's director, Xie Yingjian, told the *Guangzhou Daily* that the number of filings in January-February 2008 was equal to the total number of filings in 2001.

Despite tight censorship by Beijing, strikes are clearly mounting. In December 2007, a strike by electronics workers at the Aiguo electronics factory in Guangdong forced its owner to take back price increases for food charged at company stores.

On March 13, Reuters reported on a strike by 1,500 workers at Taiwanese-owned Lisen Boluo Wood Products Co. at Huizhou, in Guangdong province. Workers went on strike after management forced them to sign blank contracts in order to comply with the new labour law.

One worker told Reuters journalists, "We're all scared because they've taken people away. The place is very out of the way and the local government is trying to suppress news of the situation." However, workers told Reuters they were not planning on returning to work.

On April 6, Xinhua reported that 400 Chinese construction workers had been sent home from Equatorial Guinea after mounting a strike that ended with two workers dead and four injured.

Employers are trying to respond by shifting production to poorer regions of China or to Pakistan, India or Southeast Asian countries such as Vietnam. However, inflation is picking up in these countries as well—partially as a result of rising world food prices, and partially due to rapid construction of factories and commercial operations—with year-on-year consumer price inflation reaching 19 percent in Vietnam, according to the *New York Times*.

The *Asia Times* noted: "About 50 percent of the shoemakers that have closed down in Guangdong have moved their factories to China's hinterland, setting up in Hunan and Henan in the centre of the country, in Jiangxi in the east, and in Guangxi, which lies between Guangdong and Vietnam. A quarter have moved to other Asian countries such as Vietnam, India and Myanmar, while [the rest] are undecided about their next move."

Chinese expansion also is limited by the destabilisation of China's western border by the crisis of US militarism in the Middle East. In February, Chinese investors decided to postpone initial investments in neighbouring Pakistan's textile industry, citing unskilled labour, high energy costs, and the threat of suicide bomb attacks.