Global recession threatens mass lay-offs in China

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A wave of protests by laid-off workers is a sign of what is to come as the global recession hits China. Like their counterparts in North America, Europe and elsewhere in the world, workers in China are being hit hard by accelerating plant closures, especially in the major export industries.

The latest example is Smart Union, one of the largest toy manufacturers in Dongguan city in the southern province of Guangdong. Around 7,000 people lost their jobs after the company, which manufactured items for US toy giants like Mattel and Disney, went bankrupt on October 15.

Workers immediately protested to demand their wages, severance pay and other benefits—2,000 gathered outside the local Zhangmutou district government office and another 100 workers outside the factory gate. Riot police with shields and clubs were deployed at the government building. The local government posted a sign at the factory gate warning that workers could be detained for 10-15 days for staging illegal protests, or ignoring orders from security officials. The confrontation only ended when the government promised to provide 24 million yuan ($3.5 million) to cover two months of unpaid wages.

A 42-year-old worker told Associated Press: "This financial crisis in America is going to kill us. It's already taking food out of our mouths." Most workers were migrants from rural areas. Song Xiaoguan, 25, told Agence France-Presse (AFP): "We thought about going to Shenzhen or even Shanghai. But then factories are also closing down in those places." Another worker said he feared returning to Fujian province where economic conditions were worse than Dongguan. "I do not want to go back home a poorer man, in debt, and unable to feed my family," he said.

Smart Union's liquidation followed a loss of $US26 million caused by weak demand and rising costs—a situation facing most export industries. Earlier this month, Dongguan mayor Li Yuquan told foreign reporters that more than 400 factories in the city had closed down in the first half of this year, posing a serious unemployment problem. China's customs agency announced last week that 52.7 percent of the country's toy exporting companies—3,631 in all—had ceased operations in the first seven months of the year.

Dongguan is located in the Pearl River Delta—one of the country's major manufacturing zones. The region turns out vast quantities of low-cost consumer goods such as toys, textiles, shoes, garments, home appliances and electronics for Western markets. Foreign investors from Hong Kong, Taiwan, Japan, US and Europe have flooded the region to set up factories since the 1980s.

In boom times, workers laboured in the atrocious conditions for long hours and low pay. Now millions of workers are losing their jobs. According to Chen Cheng-jen, chairman of the Federation of Hong Kong Industries, a quarter of small and medium Hong Kong-invested companies in the Pearl River Delta will be closed by next January, throwing 2.5 million workers out of work.

Since mid-October, workers from a series of closed factories across Guangdong province have held protests by blocking roads and highways. The demonstrations included: 1,000 workers from a Dongguan pet utility company, 700 workers from a Dongguan shoe factory, 500 workers from an electronic plant in Fushan and 500 workers from a Panyu textile firm. On October 13, 1,000 workers from a closed Taiwanese-owned factory in Dongguan's Dongcheng district blocked a road, demanding three months in unpaid wages. Riot police were brought in to disperse the protest and arrested more than 20 people.

Shenzhen, a major manufacturing city in the Pearl River Delta, has also witnessed growing unrest. BEP, a home appliance manufacturer, recently declared bankruptcy, leaving 1,500 workers jobless. Workers staged demonstrations on October 20-21 and guarded the factory to prevent assets being looted by creditors and suppliers. The Shenzhen labour bureau offered each worker just 300 yuan ($US44) in compensation.

Following the collapse of watch manufacturer Peace Mark, more than 800 workers from its plant in the Baoan district of Shenzhen staged a protest on October 21, demanding 4 million yuan in severance pay. Another 600 workers from its factory in the Longhua district demonstrated in front of the township government. On October 20, more than 900 workers from the bankrupt electronics firm Gangsheng in Longgang district kidnapped a Hong Kong driver demanding the government cover unpaid wages.

Economic downturn

The labour unrest in Guangdong indicates why the Chinese regime has just announced an economic stimulus package in a desperate bid to keep growth above 8 percent. Either Beijing creates sufficient jobs to absorb the growing workforce or it faces a social explosion. The growth rate for the third quarter had already slowed to 9 percent—down from almost 12 percent last year.

China's exports expanded more than 22 percent in the first three quarters—but the figure was down 4.8 percent from the same period last year. Stephen Green, China economist with Standard Chartered, forecast that exports could tumble to "zero or even negative growth" in 2009. JP Morgan Chase recently estimated that Chinese exports would fall 5.7 percent for every one percent shrinkage in global economic growth.

Guangdong's exports rose just 14 percent in the first seven months of this year—down from 27 percent for the same period last year. Industrial profits were up just 4 percent in the first five months of the year—compared to 49 percent for the same period last year.

The slowdown in exports is reverberating throughout the whole economy, dragging down the prices of homes, especially in the once booming coastal cities. Yan Yu, a Beijing University academic, told *USA Today* on October 21 that the property bubble is starting to burst. Housing prices in Dongguan, for instance, have fallen by up to 50 percent this year, leaving many families owing more on their mortgage than their home is worth. The downturn in real estate, which is partly driven by a growing outflow of speculative capital from China, will weaken domestic demand and further slow the economy.

Zheng Zizhen, labour expert at the Guangdong Academy of Social Sciences, told the *South China Morning Post* on October 17 that the "big ships" of manufacturing were sinking because of the recession in the US and Europe. "And we do not know how long the others can stand. It all depends on how strong they are, so the government should be prepared for possible labour problems," he warned.

The situation is no different in the region around Shanghai—another major manufacturing area. On October 7, Zhejiang River Dragon Textile Printing & Dyeing Co, one of the largest factories of its kind in China, shut down, leaving 4,000 workers in Shaoxing city jobless. Hundreds of workers joined protests, even as suppliers and creditors were busy looting assets from the complex. More than 10,000 textile companies throughout China went out of business in the first half of this year—that is, before the full impact of US financial crisis in September.

A program broadcast by state-run CCTV on September 13 focussed on the situation in Shengze, the "silk capital" in Jiangsu province, where 2,400 textile firms employed 250,000 workers. The reporter explained: "You can see a lot of small textile enterprises in Shengze. Most of them have only 30 or 40 machines and 10 or 20 workers. These companies are mostly working hard to just get by; some are closing down for a period and then starting up again. Although some are still in production, they are increasing inventory, like the company behind me here. According to locals, they haven't been operating since Chinese New Year [in February]. For companies like this, no one is sure who will make it."

Most migrant workers were staying put, hoping that things would get better. They depended on whatever shifts were available to get by. At Hengli Chemical Fibre, a large firm, the workforce had already been slashed by 1,500 jobs, due to increases in productivity. While the stronger companies may survive by hiring fewer workers, the small firms that employ the bulk of workers can only cut costs and wages or go bankrupt. "This has put many migrant workers in a very difficult situation," CCTV explained.

With 90 percent of its economy dependent on silk-related textiles, Shengze is just one of many manufacturing cities in eastern China that specialise in a single product. There are "shoe" towns, "zipper" towns, "air conditioner" towns and "sock" towns—each with hundreds of thousands and even millions of workers dependent on the production of just one commodity. Once celebrated for their large numbers of successful new entrepreneurs, these towns and cities are now highly vulnerable to global recession.

As the full force of the economic tsunami hits China in coming months, many of these new industrial cities will rapidly be transformed from economic miracles to centres of political turmoil as sacked workers confront factory owners, police and government authorities.