Chinese manufacturing in free fall as export markets collapse

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7 November 2008

Output by China's vast manufacturing sector, which employs tens of millions of workers and has functioned as the cheap labour workshop of the globe, is slowing dramatically as demand collapses in its major North American and European markets.

A range of indices testify to the beginnings of a deep slump. At the recently concluded Canton Trade Fair, orders for Chinese export goods fell one-third to $24.8 billion, compared with $38.2 billion in 2007. Orders from US sources fell by two-thirds.

Analysts such as Stephen Green of Standard Chartered Bank in Shanghai have estimated that export growth in 2009 will plunge from over 22 percent in the first nine months of 2008 to "zero or even negative growth". Green told the British *Independent* last month: "Many factories are looking at completely empty order books."

The Purchasing Managers' Index (PMI), which measures the activity of major Chinese companies, dropped in October to 43.5, indicating economic contraction. Eric Fishwick of investment bank CLSA wrote in a report: "The very sharp fall in the October PMI confirms that China is more integrated into the global economy than ever. Chinese manufacturers are seeing their order books cut, both at home and abroad, as the world economy falls into recession."

Some 90 million tonnes of iron ore are now stockpiled in Chinese ports—two months worth of imports—due to a sudden collapse in demand by steel mills. Chinese orders for copper, nickel and a range of other metals have also plummeted. Credit Suisse has downgraded its forecast of increased oil demand by China from 4 percent to near zero in 2009, as industrial activity falls.

In an article published on the weekend in the Communist Party's journal *Qiushi*, Premier Wen Jiabao warned the Chinese regime that "this year would be the worst in recent times for our economic development".

China's economic growth had already slowed to 9 percent in the third quarter of this year—the lowest in five years. Both exports and foreign direct investment (FDI), which totalled $US74.8 billion in 2007 and was on schedule to exceed that figure this year, are expected to fall dramatically in the last quarter.

The investment bank UBS has responded by downgrading its growth expectations in 2009 to just 7.5 percent, below the 8 percent level most analysts believe is necessary just to generate enough jobs for the millions of new entrants into the labour force.

Unemployment is set to soar as millions of workers lose their jobs. The *China Labour Bulletin* reported last month that some 8 percent of all businesses in the export city of Wenzhou, in Zhejiang province, have already closed down or stopped production. Companies still operating are cutting workers' wages in a desperate attempt to cut costs and maintain profitability.

According to an October 28 report by *Forbes*, the Dongguan City Association of Enterprises with Foreign Investment expects up to one-third of the 45,000 factories in the major export cities of Dongguan, Shenzhen and Guangzhou will have closed by the Chinese New Year in January. Several million manufacturing workers will be laid off, triggering massive job shedding in the retail and service sectors as well.

In numbers of cases, companies have closed down owing months of back pay to their staff, provoking volatile demonstrations and cases in which workers have occupied their factories. Nervous local and provincial governments have stepped in to give payouts to laid-off workers.

Hu Weicai, a worker who took part in an occupation of the Smart Union toy factory last month, told the *Washington Post*: "The government was very afraid when they saw what was happening. What the government fears most is workers making trouble. They paid us to stabilise our moods."

The regime, however, cannot provide alternate employment. The British *Sunday Times* reported on November 2: "Businessmen travelling in the southern Chinese provinces say that entire industrial estates have turned into ghost towns as thousands of migrant workers who have lost jobs head back to the countryside."

Stanley Lau of the Federation of Hong Kong Industries told the *Los Angeles Times* that more than 15 percent of the 70,000 Hong Kong-owned enterprises across China will have shut down by the Chinese New Year, but predicted another wave of closures during the annual holidays.

Many factory operators are holding out for the holidays before shutting down, in the hope of avoiding confrontations with laid-off employees. Each New Year, millions of workers in the export zones return to their home towns and villages, in an exodus that empties the working class suburbs. "Once workers go home, they [the owners] can close down the factory quietly", Lau said.

The Beijing regime is growing increasingly alarmed at the crisis and taking measures aimed at shoring up the export sector, boosting the role of domestic consumption in the economy and creating jobs.

Last month, the government unveiled increased export rebates for 3,000 products, to give them a greater competitive advantage in world markets. It announced a 2 trillion yuan ($US292 billion) project to expand the country's rail system by 2020, in the hope of creating 1.5 million jobs and providing additional demand for a range of industries, particularly steel. Provincial and local authorities are also bringing forward infrastructure projects.

Cash and regulatory incentives are being offered for people to buy real estate. Home sales are now down by 55 percent in Beijing, 38.5 percent in Shanghai and 15 percent nationally, driving down asset values. To stimulate spending in rural areas, where the majority of the population still lives, the minimum prices paid to farmers for produce have been increased by 15 percent.

The fiscal spending is being accompanied by monetary stimulation. On October 29, the Peoples Bank of China reduced interest rates for the third time in two months.

The measures have an entirely stop-gap character, however. With export markets collapsing and investment falling away, nothing Beijing does will be able to avert a severe economic contraction and explosive social tensions in the country's major industrial centres.