A new wave of factory closures threatened in China

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The closure of two major plants in Dongguan—one of the key manufacturing hubs in southern China—is a sign that the government's credit tightening policy to curb rampant real estate speculation is unexpectedly threatening a new round of factory closures.

The shutdown of the South Korean-owned Dongguan Soyea Toys in mid-July, one of the oldest toy factories in Dongguan, was a shock for Beijing. Soyea had been operating since 1992 and was a supplier to major American retailers. It went bankrupt, however, as export orders fell amid rising costs for inputs.

A major textile company, Dingjia, in the same city, closed in June, leaving 2,000 workers without a job. In both cases, the factory owners fled, leaving debts to suppliers and unpaid wages of millions of dollars.

Soyea left 470 workers with their wages for June and first half of July unpaid. More than 200 workers gathered at the gates of the municipal government compound last Tuesday in protest. Workers demanded the authorities intervene to obtain their wages of around one million yuan ($US154,000).

Chinese economic commentators have compared the Soyea and Dingjia closures to those of the Hejun toy plants in Dongguan in 2008, which signalled the beginning of a wave of factory closures. In the midst of the 2008 global financial crisis, more than 20 million migrant workers lost their jobs, mainly in China's export industries.

Chen Yaohua, director of Dongguan's textile and garment industry association, told the official Xinhua news agency that 10 percent of textile companies in Dongguan were now under financial pressure. Hong Kong Small and Medium Enterprises Association chairman Lau Tat-pong pointed particularly to the 18.6 percent rise in the minimum wage in Guangdong in March.

Fears about the manufacturing industry were further underscored by HSBC's flash purchasing managers' index (PMI) for China. It fell to 48.9 in July—the lowest figure in 28 months. A PMI reading below 50 represents a contraction in manufacturing activities. The Shanghai stock market tumbled 1 percent last Thursday on the news.

Zhu Hongren, spokesman for the Ministry of Industry and Information Technology, acknowledged last week that small and medium enterprises (SMEs) faced serious financing difficulties as Beijing tightened liquidity, but dismissed warnings of a wave of bankruptcies.

In the aftermath of the Lehman Brothers' collapse in 2008, export companies were hit not only by a collapse of foreign orders, but a global credit squeeze that spread to China. Many foreign companies were unable to pay for their orders on time, causing a cash flow crisis for manufacturers, who in turn were unable to pay wages and suppliers. Factory closures swept the country.

Now a new form of credit crunch has affected the export industries. The government has lifted interest rates five times since October and imposed a number of restrictions on bank lending.

A recent survey of 17 provinces submitted to the

State Council by the All China Federation of Industry and Commerce warned that the problems of survival among medium and small enterprises "have surpassed those of 2008."

While the survey has not yet been made public, a source within the business association told *21st Century Business Herald* that 90 percent of SMEs were unable to get bank loans, or were lucky to obtain loans with monthly interest rates of 20-30 percent. Underground lenders charged monthly rates of up to 50 percent. The source explained that in 2008, while the external demand had fallen sharply, the domestic credit environment had been loose. "But the current situation facing businesses is that external demand has not truly recovered, and so the banks' credit tightening gravely threatens the cash flow of the vast majority of SMEs."

The re-emerging crisis of small and medium firms, which employ the bulk of China's workforce, is another symptom of the deepening turmoil facing Chinese capitalism.

In order to placate tens of millions of workers and to head off unrest, Beijing introduced a Labour Contract Law in 2007 that required employers to contribute to superannuation and provide permanent positions after 10 years of work. These extremely limited labour reforms have undermined many firms, which have also been forced to pay higher wages after a wave of strikes initiated by Honda auto workers in 2010.

Wages have been eroded by inflation, however, and many smaller firms are unable to attract rural migrant workers. In Guangdong province, the current minimum monthly wage is 1,300 yuan ($US200) a month, but even this meagre pay is now considered too high, compared to say Vietnam, where the wage is just $40 a month.

Transnational corporations have refused to pay more for goods made by low-end contractors in China—mainly owned by Chinese, Taiwanese, Korean and Japanese capitalists. In turn, these contractors have to scale down operations and shed workers, or relocate to inland provinces or even to Vietnam and Cambodia, where labour is cheaper. Above all, they have to intensify the rate of exploitation with longer hours and higher productivity.

An investigative report published last week by the US-based *China Labour Watch* examined ten electronics sweatshops making products for Apple, Dell, Sony and other international corporations. It found that employees were forced to work as much as 40 hours overtime a week, and were paid wages so low that they could not afford basic living costs.

The report explained how Chinese-based manufacturers, such as Taiwanese-owned Foxconn, were squeezed. It noted that the retail price for an iPhone in 2010 was $600, but after subtracting the costs of components of $187.50, Apple paid just $6.45 to Foxconn. The component and production costs were fixed. "Therefore it [Foxconn] can only profit from the price difference between its assembly revenue and the cost of workers' salaries, thus introducing great incentives for factory management to pay workers as little as possible."

Foxconn, which employs a million workers in China, recorded a net loss of $218.3 million last year due to falling global electronic sales. The suicide of 14 young workers last year highlighted Foxconn's atrocious conditions. At least three more workers killed themselves this year, with the latest death occurring last Monday in the company's Shenzhen complex. In May, an explosion at Foxconn's Chongqing plant, which manufactures Apple iPads, killed three workers.

Rising unemployment produced by any large-scale factory closures in China, on top of the intensifying exploitation of workers, will vastly exacerbate social tensions in China and inevitably unleash an explosion of working class discontent.