

Development and Trends in the Chinese Garment and Textile Industry

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China is huge and everything about it is huge in terms of absolute numbers. China has a total population of 1.3 billion and a total workforce of 760 million (2006 official figures). Of the total workforce, 150 -200 millions are internal migrant workers from rural areas. There are around 20 million migrant workers working in the textile and garment sector.

Before China's entry into the WTO, the Chinese government had already undergone a restructuring of the SOE (State-Owned Enterprises) sector, including many textile and garment factories. Few people are aware that in the six years between 1996 and 2002, a total of 40 million workers (37% of the total SOE workforce) were laid off because of restructuring and privatization.

The great wave of layoffs prior to the WTO accession was not limited to textile and clothing industries. Table I shows the period 1996 to 2001, during which a total of 26 million workers were laid off in various manufacturing sectors. This was the first wave of downsizing. All thirty-six manufacturing sectors experienced severe job losses. Nineteen of them cut 30 to 49 per cent of their workforces; nine sectors cut more than 50 per cent and nine sectors cut more than one million workers.

Table I: Number of workers by sector (ten thousands)

Sequence	Industry	1996	1997	1998	1999	2000	2001	variation	(per cent)
1	Coal	505	493	405	372	343	330	-175	-34.7
2	Oil and natural gas	125	116	109	100	80	73	-52	-41.6
3	Ferrous metal mining	21	20	16	16	15	14	-7	-33.3
4	Non-ferrous metal mining	60	54	40	37	35	32	-28	-46.7
5	Non-metallic	58	54	43	38	33	29	-29	-50

	mining								
6	Other mining industries	2	1	2	1	1	1	-1	-50
7	Wood and bamboo logging	114	111	88	85	73	65	-49	-43.0
8	Food processing industries	198	190	141	128	113	98	-100	-50.5
9	Food industry	119	114	77	72	67	62	-57	-47.9
10	Beverage industry	121	123	94	89	84	75	-46	-38.0
11	Tobacco industry	33	33	30	29	27	25	-8	-24.2
12	Textiles	634	596	393	353	327	301	-333	-52.5
13	Clothing and other fiber products	168	162	127	122	120	121	-47	-28.0
14	Leather and fur products	91	85	62	57	58	55	-36	-39.6
15	Wood, brown grass, bamboo and rattan processing	72	67	39	35	31	28	-44	-61.1
16	Furniture manufacturing	31	30	19	18	16	15	-16	-51.6
17	Paper and paper products industry	128	124	84	75	66	61	-67	-52.3
18	Printing and recording media industries	96	90	69	64	58	51	-45	-46.9
19	Cultural and sporting goods manufacturing	37	35	30	29	28	26	-11	-29.7
20	Oil processing and coking industries	76	74	67	63	61	56	-20	-26.3
21	Chemical raw materials and chemical products manufacturing	407	392	304	282	254	230	-177	-43.5
22	Pharmaceutical Industry	102	101	86	83	83	82	-20	-19.6
23	Chemical fiber manufacturing	49	50	40	34	33	30	-19	-38.8

24	Rubber products industry	75	69	52	48	43	40	-35	-46.7
25	Plastic products industry	105	101	73	67	61	56	-49	-46.7
26	Non-metallic mineral products industry	407	387	284	263	240	219	-188	-46.2
27	Ferrous metal smelting and processing sector	337	321	256	242	222	204	-133	-39.5
28	Non-ferrous metals smelting and pressing industry	101	98	84	83	80	79	-22	-21.8
29	Metal products manufacturing	181	174	119	106	96	89	-92	-50.8
30	General machinery manufacturing	422	403	275	249	222	203	-219	-51.9
31	Special equipment manufacturing	280	274	197	179	163	145	-135	-48.2
32	Transportation equipment manufacturing	354	346	279	269	244	232	-122	-34.5
33	Electrical machinery and equipment manufacturing	236	227	170	158	145	137	-99	-41.9
34	Electronics and telecommunications equipment manufacturing	163	165	134	133	138	143	-20	-12.3
35	Instrumentation and office machinery	82	79	53	48	46	44	-38	-46.3
36	Other manufacturing	129	115	86	77	76	67	-62	-48.1
National total		6450	6215	4753	4428	4102	3838	-2612	-40.5

China's medium and long-term unemployment problem – exploring the issue through looking at structural changes in industries, The Chinese People's University Press, 2004, p.179 - 181. According

to the author's notes, the figures are calculated according to the 2001 and 2002 China Statistical Year Book.

In the textile and garment industry, China sacked more than half of the workforce, most of them are middle-aged women, in order to compete in the global market. However, this severe job loss was not reflected by the World Bank's 2004 report when it claimed that the industry would gain from China's accession to the WTO.

The Chinese government, in its attempt to make domestic firms more competitive after accession, had to conduct shock therapy on these firms prior to the accession. They therefore initiated a great wave of privatization and restructuring, which resulted in the tremendous downsizing before the accession.

Table II shows that in seven years (1996 to 2001) the textile and clothing industries lost 3.8 million jobs. The former cut 52.5 per cent of its workforce and the latter 28 per cent.

Table II: Employment figures of the textile and clothing industries (ten thousands)

1996	1999	2001	2005
802	475	422	443.5

1996-2001 figures come from "China's medium and long-term unemployment problem – exploring the issue through looking at structural changes in industries", the Chinese People's University Press, 2004, p. 179 -181. 2005 figures come from 2006 China Statistical Year Book.

In 2005, four years after WTO accession, the two industries witnessed a small rise in employment. However, those workers who managed to keep their jobs in 2005 had not been able to keep their wages and benefits at the old level, primarily because by 2005, 84 per cent of the workforce now worked in private firms, whereas in the past they mainly worked in SOEs, which provided much better wages and benefits to workers. The opening up of the Chinese market, privatization and restructuring had either bankrupted or privatized state-owned textile and clothing factories, or both.

Only after this great wave of downsizing were Chinese textile and garment firms able to survive and to seize market share from other developing countries like Mexico and Indonesia. Their success was achieved by sacrificing millions of jobs in the industry.

In our interviews with some textile workers last year, one of them told us that in the old collectively-owned factory one worker had to operate only seven machines. But after it had

closed down and she had to move to a privately-owned factory, she had to operate twenty machines, twelve hours a day. What is more, the management forced them to attend a weekly session to ‘learn’ how to ‘contribute’ to the factory.

Working and Living Conditions and Workers’ Resistance in China

Since 2000, there have been waves of workers strikes and work stoppages demanding better working conditions, wages and other compensation.

Chinese workers have faced job loss or the threat of it, as well as a sharp rise in the cost of living such as health care, education, fresh water, and even safe food. Since the middle of the 1990s the government has largely abdicated its responsibility to provide affordable services in the above areas. The situation has been exacerbated by the WTO accession because it also requires China to open up its health care, education, water supply and agriculture to foreign competition.

According to a World Health Organization report, in 2002 China’s public expenditure on health care ranked 131 among the 191 WTO member countries, while a Chinese household’s expenditure as proportion of total expenditure on health care ranked as high as 15. In 2005, energy, health care and education were considered the top three most profitable sectors in China. A 2003 government conducted survey revealed that, because of unaffordable medical costs, 48.9 per cent of households did not consult doctors when they were sick, and 29.6 per cent did not hospitalize themselves when they should do so. Ninety per cent of the population was discontent with the present health authority.

The deterioration of working conditions and benefits for workers continuously forces a huge number of workers to protest against their employers. (Table III) **In the Pearl River Delta where export processing zones started in the 80s, spontaneous strikes are common everyday.**

Table III Disputes and Protests in China between 2001 and 2005

Year	No. of disputes	Worked involved
2001	154,621	467,000
2002	184,116	608,000
2003	226,391	800,000
2004	Data not available	Data not available
2005	313,773	750,000

The Latest Development and Trend in the Apparel Industry in China

The manufacturing sector has been so exploitative that since 2003 many workers have quit their jobs and most Chinese factories have been facing a serious shortage of manual labor. In Zhejiang, Central China, it is very common for workers to ask the boss to return their ID cards so that they can take a higher-paying job in another region. There has been an estimated 20% rise in labor costs in 2008 alone. There are many reasons for this:

1. a shortage of adult labor resulting from the one child policy imposed in 1979;
2. Workers are sick and tired of sweatshop conditions and low pay; and
3. Workers are more aware of their rights and more willing to take action.

Many companies reportedly need to pay higher wages to recruit skilled workers and the rise of production and labor costs are reportedly hurting the Chinese apparel industry's competitive advantage and profitability.

Apparel labor costs in China are now 3 to 5 times those of exporters in some other Asian countries:

China: USD 1.08/hour (2008)	USD 0.68, 0.88 (2003)
VN: USD 0.38/hour (2008)	Data not available
Pakistan: USD 0.37/hour (2008)	USD 0.41 (2003)
Cambodia: USD 0.33/hour (2008)	USD 0.2 (2003)
Bangladesh: USD 0.22/hour (2008)	USD 0.39 (2003)

However, wages and social benefits are only a very tiny portion of production costs. In China, there are other reasons for the rise of production costs in the sector that led to less profits and more competition in the industry:

1. rise of China's currency, the RMB (Since July 05, the exchange rate of China currency, the RMB has risen by 20%);
2. lower export tax rebates;
3. the higher costs of energy and raw materials;
4. the high cost of living in the East coastal areas;
5. growing environment legislation and regulation;
6. implementation of the new Labor Contract Law;
7. self-regulation under a voluntary Industry Code—CSC9000T;
8. the tightening of credit for new investment by the Chinese government; and
9. the slowdown of the US and EU economies that affect the export of textile and clothing products from China.

Total labor costs are said to have jumped by 30-40 % in some coastal manufacturing zones over the last few years. The new Labor Contract Law and stricter enforcement will certainly lead to higher costs. Overtime and severance payments under the new law can be a huge amount!

2007-08—Cold Winter for the Apparel Industry in China

The latest figures show that there are more than 20 million workers directly employed in the textile and garment sector and many more are indirectly employed. Eighty percent of them are internal migrant workers from rural areas. Many textile and garment SMEs are sweatshops providing low wages and benefits. Many of these SMEs are struggling to survive.

In Jan-Nov 2007, among the 14,000 strong registered apparel companies above standardized scale, around 3000 of them noted deficits. (See Table IV)

Table IV Performance of the Most Established Apparel Companies in China in 2007

Company		Percentage Increase Compared with same period in 2006
No of companies	14,326	12.75 (12,706)
Companies with deficits	2,826	13.09
Percentage of companies with deficits		19.73
Total workers employed	~ 4 million	5.22
Each company with workers on average	277	- 4.11

Source: China Textile Industry Development Report (2007/2008, p. 93) – Chinese version

However, the amount of clothing produced has not decreased. These 14,236 companies produce 39% of the total clothing products for the sector, 6% higher than 2006. The profit performance is splitting into two extremes: less than 27% of these clothing companies’ sale profits higher than the industry’s average profits. 10% of the companies enjoy 80% profit of the industry as a whole. Twenty percent of the companies received 94% of the profits.

According to an official China Textile Industry Development Report (2007/08), the Chinese government’s strategy is to force the non-competitive SMEs with less than 100 workers out of business in order to relieve the labor shortage for other big, established competitive companies. In some regions, 15% of SMEs were closed down

and 8% of them are forced to close down. This certainly affects the employment and the livelihood of many migrant workers in the regions.

In the Textile sector, companies are moving production from Eastern China and coastal regions to Western China in order to reduce production costs.

East China (5 provinces and 1 city) —Guangdong, Jiangsu, Zhejiang, Fujian, Shandong and Shanghai.

West China (6 provinces) —Anhui, Jiangxi, Henan, Hebei, Hunan, and Sichuan.

In 2007, USA (16.35%) and Japan (14.34%) are still China's biggest export destinations. Asia is China's biggest apparel export region and it represents 40.47% of China's total apparel exports. Chinese apparel exports to Africa and Australia have also increased drastically. China's biggest export clients among EU member states include Germany, Italy and France.

China increasingly relies on the new found markets in other regions such as Africa and Asia and its domestic market consumption.

References:

1. China Textile Industry Development Report (2007/2008) –Chinese version only
2. China National Textile and Apparel Council (CNTAC), the national Federation of all textile-related industries. The Report reflects the annual development trend of the garment and textile industry. –Chinese version only