

THE TEXTILE INDUSTRY IS FACING BIG CHALLENGES IN CHINA

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**Report of the Sixth Round of Labour
Inspection in China for**

STORMBERG

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1. THE INSPECTION ²

The sixth round of unannounced labour inspection was carried out in September 2010.

Table 1-1: The sixth round of labour inspection – participating factories

Factory	Belonging Export Company	Inspected before ?
Ningbo V-baby Co., LTD	CAC Ningbo	No
Ningbo Tianming Clothing Factory	CAC Ningbo	Yes
Ningbo Gaoxiang Clothing Factory	Ningbo Hisen United Exp.	No
Ningbo Shen Yi Clothing Factory	Ningbo Hisen United Exp.	No

In addition, separate meetings were conducted with:

- Mr. Hab Chen, from CAC
- Mr. Li Hai, from Ningbo Hisen United Exp.

Findings and comments

Since there is only one factory that has been inspected before, lack of base for comparison (before and now) is obvious. The findings that are listed below are relatively common for all the inspected factories in this round, without reference to previous inspection rounds. Some findings here are based on the talks with representatives from the belonging export companies.

√ Good access to orders

All the factories have now good access to orders. The order situation has been good since the second half of 2009. In spite of the global financial crisis and economic slowdown, the demand of Chinese textile and garment products has recovered quickly and as matter of fact, been increasing.

√ Labour shortage

All the inspected factories are facing the problem of labour shortage, especially regarding the migrant workers. One factory has failed to establish a separate

² Special thanks to Mr. Hab Chen from CAC and Mr. Li Hai from Hisen, and all the inspected factories for their remarkable cooperation and assistance.

workshop for Stormberg due to lack of labour. The other factories are running at half production capacity due to the labour shortage.

All the inspected factories have a relatively high share of migrant workers in their workforce, especially among the production workers where the average share is 80 percent.

The problem of labour shortage is further elaborated as a special topic in chapter 2 in this inspection report.

√ Working environment

The working environment is fairly good. No clear new investment is noticed.

√ Basic labour rights

Neither child labour nor forced labour was discovered under the inspection. There has been no severe labour conflict reported at these factories. All factories have implemented major requirements from the Chinese Labour Contract Law. Standard written labour contracts are signed between the employers and the employees. The employers pay social security contribution for the employees according to local regulation in Ningbo.

√ Labour conditions

At the background of labour shortage, the wage and working conditions for employees have been much improved. The factories are working hard in order to keep on the workforce at the factories.

It is reported a wage increase by 20 percent so far in this year. Other benefits, such as free meals, free accommodation, gifts on holidays, free trips home, longer vacation on the Chinese New Year, are being reported as well.

The labour shortage has actually contributed to improved labour conditions at a large degree.

This issue is more elaborated in Chapter 2.

√ Labour relations

All the inspected factories are unionized. However, there is no collective bargaining taking place and no collective agreement signed at the factories.

2. TOPIC IN FOCUS: LABOUR SHORTAGE

A. *Is there a real labour shortage?*

One should be a little bit precise here. There is **no general labour shortage** in China. As a matter of fact, the labour supply still exceeds the labour demand in the Chinese labour market, which is reflected in, for instance, a relatively high (open or hidden) unemployment rate and difficulties in finding a job for many university graduates.

The labour shortage we are talking about here is a phenomenon, which is:

- Region-decided, mainly in the Yangtze River delta area (Shanghai, Zhejiang and Jiangsu) and in the delta region of Pearl River (Canton), and in some big cities.
- Branch-decided, mainly in the labour-concentrated light industry, such as textile and garment, shoes, toys, electronics, etc.
- Skill-decided, mainly concerning the skilled-workers and operators.
- Workforce type-decided, mainly referring to the migrant workers.

For many factories, such as the inspected garment factories in Ningbo, this “labour shortage phenomenon” is quite real and has been accelerating and deteriorating since the second half of 2009, which has become a major bottleneck problem for production.

B. *Is there an explanation?*

The reasons and causes of this phenomenon are complex and mixed. The followings are often mentioned as kind of explanations:

- Inland and rural development

The Chinese Government has during the past several years adopted a number of policies prioritizing the development of inland and rural areas. Abolishment of agriculture tax is one example. Another example is that the farmers are allowed to lease their land to state enterprises and entities for industrial development. Thus the farmers are able to benefit directly from the land (ground rent) which is actually not owned, but only disposed by them. As a countermeasure against possible impact of the financial crisis, the Chinese Government speeded up the inland and rural development at a large scale. Rebuilding the catastrophic area

after the earthquake in Sichuan province holds many workers in their hometowns. In sum there are much more job possibilities and beneficiaries in the hometowns which keep the inland and rural workforce from moving outside.

- Not being attractive anymore

The textile and garment industry is often associated with hard working, long working hours and not least, low pay. In the previous inspection reports we have documented that the textile industry in China is a typical low-pay industry. Massive use of overtime, long working days and lack of holidays (1 Sunday off in every two weeks) are the branch standard practice. This kind of working and wage conditions makes the textile and garment industry no longer attractive for many new workers if they see an alternative.

- New generation of migrant workers

The industry is facing a second generation of migrant workers who were born in the 80s and 90s. For this generation of migrant workers (or potential workforce to the cities), there are some clear differences comparing to the first generation (their parents):

- * They are much better-off than their parents at the starting point.
- * They have better knowing and easier access to information (internet for instance).
- * They are more aware of their rights, interests and benefits.
- * They are less loyal and more eager to “move”.
- * In many people’s eyes, they are less hard-working.

- Living wage vs. actual pay

The living costs in the coastal region of China are very high. The big cities like Shanghai or the medium-sized cities like Ningbo will be less favourable for migrant workers to work in if one compares the actual wage to the living wage. Many migrant workers would rather working in other inland cities where the actual pay is somehow lower than the coastal cities like Ningbo, but the living wage (living costs) is even much lower as well.

The mandatory minimum wage in Ningbo is 1100 CNY per month, which is only 20 CNY lower than the minimum wage in Shanghai. In fact, Ningbo has now the second highest mandatory minimum wage standard in whole China.

As elaborated in last year’s inspection report, the minimum wage is far from a living wage, but can be used as an indicator for living wage. When minimum

wages are highest in Shanghai and Ningbo, it indicates that living standard/living costs may also be the highest, so as the living wage.

C. What are the consequences for enterprises?

Labour shortage, or to be more precise, shortage of migrant workers and skilled workers in a city like Ningbo, is causing a big concern among the textile and garment enterprises.

It restrains the production and capability of delivery. All the inspected factories repeat the same message: “we don’t worry about the orders. As a matter of fact, we are worrying about too many orders, because we have a capacity problem to meet this demand due to the labour shortage...”

It raises the labour costs. From time to time, the factories will have to hire extra hands to complete an order. This costs a lot. The average wage for production workers in the inspected factories is around 2000 CNY per month (including overtime). If a factory has to temporarily hire in some local skilled workers, as extra help, to complete an order, the monthly salary is 4 – 5000 CNY, exclusive overtime pay. The first mentioned is a piece wage, and the last mentioned is a fixed monthly salary.

A factory in Ningbo benefits from using migrant workers. Employer pays a fixed amount of 220 CNY monthly as the social security contribution for a migrant worker (20% of minimum wage standard). For a local worker, the employer must pay at least 400 – 500 CNY monthly as the social security contribution (about 40% of minimum wage standard in Ningbo). So the employer social security contribution for a local worker is at least twice as high as for a migrant worker.

D. How the factories respond to this problem?

Better treatment of the remaining workers

- The migrant workers enjoy full board (free dormitory and three free meals a day).
- The workers enjoy a wage increase by 20 percent during the past 12 months.
- The workers receive a bonus before the Chinese New Year
- The workers get gifts on the holidays
- The migrant workers get transport expenses covered by the employer when they visit home and return to the factory
- The migrant workers enjoy a longer vacation in connection with the

Chinese New Year

Other incentive measures and encouragement (not found among the inspected factories)

- The migrant workers get a bonus when returning to the factory after vacation
- The migrant workers get a bonus when introducing new workers to the factory

Moving out the traditional workshop

In order to have a closer access to the labour force, many garment factories in Ningbo, including two of the inspected factories, have or are planning to move out the traditional labour-intensive workshops to a more remote region inside the province or to another province with adequate workforce. Sampling and design unit is kept at the old factory in Ningbo.

The results so far seem not to be very promising. One encounters a number of problems such as generally lower competence level among the local workforce; inadequate infrastructure; distance from the supply chain; administration difficulties; etc.

Occupational training at workplace – still unthinkable?

In spite of lack of skilled-workers, none of the inspected factories (probably along with the other factories) is willing to provide occupational training at the factory for unskilled workers. The explanation from those factories seems real and reasonable: the migrant workforce is so floating that you may risk training the workers for other factories.

E. Outlook and impact

There seems no rapid solutions in sight to solve this “labour shortage” problem. The factories are pessimistic with regard to the outlook, at least in a 5-years’ perspective.

Thinking in a positive way, we may look at a forced restructuring and upgrading of the textile and garment industry in China. The core cluster of this industry, like Ningbo, will develop in a way of higher value-added, higher technology and less labour intensity. The labour intensive part of the industry will go west and go to inland where adequate workforce can be found. To make this happen and successful, one should build up infrastructure, skill and competence, a new

supply chain in inland, which will in return contribute to a positive development of inland in longer run.

It may be quite beneficial for the workers. As above-mentioned, the workers have already enjoyed better wage and working conditions as a result. The labour shortage has put the workers, especially the migrant workers, in a much stronger position on the labour market. They will ask for more. The question is, how much more the industry can afford before it reaches a break point. In the longer run, the industry may obtain stronger ability to lift up the general wage and working conditions for workers, if the restructuring and upgrading of the industry turns out to be successful.

Lack of skilled workers makes occupational training more and more important. It is of course the responsibility of the state and government. However, it seems short-sighted if the industry runs from its part of the responsibility too. A tripartite cooperation on occupational training is the best way to secure a sustainable development of the industry.

3. TOPIC IN FOCUS: APPRECIATION OUTSIDE AND DEPRECIATION INSIDE

The Chinese currency is under double pressures: the appreciation pressure outside (exchange rate) and the depreciation pressure inside (inflation).

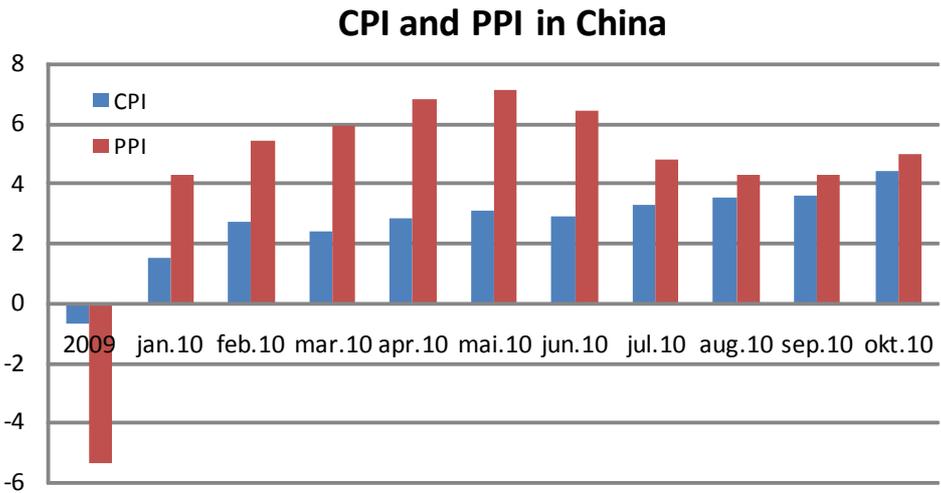
A. Appreciation outside

During the recent 3 months, the Chinese currency has been again facing a stronger appreciation pressure against USD, and CNY has increased its value against USD by little over 2 percent.

Currency appreciation is harmful to export. However, neither the factories nor the export companies consider it as the biggest threat. In spite of the exchange rate fluctuations, the appreciation range, 2 – 3 percent in one year, is not very big or fast coming, which is in a way handleable.

B. Depreciation inside

The price picture in China has turned totally upside down from 2009 to 2010. While there was a price fall (measured by both Consumer Price Index and Producer Price Index) in 2009, the CPI and PPI have climbed up sharply and rapidly in this year. The PPI reached a peak in May at 7.1 percent year to year increase. A year to year CPI-growth at 4.4 percent latest in October was dramatic, and the worst is that it seems difficult to hold a control over the inflation at this moment.



The cotton price has gone up by almost **40** percent within several months. Speculations in the forward market have driven up the price dramatically.

The scope of price growth is a problem, but also the frequency and speed of price changes is an even bigger problem. Especially the prices of raw materials and semi-manufactured products have shown a dramatic and fast uprising, which cause a lot of troubles for the garment factories, and for their customers.

4. CONCLUSION REMARKS

One of the central objectives, with regard to implementing the Codes of Conduct and following-up labour inspections, is to seek to establish a long-term business partnership between Stormberg and its suppliers on the basis of sharing the same commitment to quality and values.

There is no doubt that many of Stormberg's suppliers in China, as part of the textile and garment industry, are facing serious challenges, such as labour shortage, labour cost rising, inflation (internal depreciation) and external currency appreciation. Sum of these challenges will constitute a threat towards the existence of the Chinese textile and garment industry.

There have been crisis and challenges before. The Chinese textile and garment industry has always demonstrated a strong ability of survival and self development. It may also be the case this time.

However, it may take some time. In the meantime, the efforts, cooperation and interaction between Stormberg and its suppliers will prove to be even more valuable, positive and constructive to achieve the common objective of long-term business partnership.

What Stormberg can contribute here is a little more patience, understanding, flexibility and trust. The suppliers should be given the time and space for self adjustment and innovation in order to meet the challenges.

In the longer run, today's challenges may prove to be a good start for a better and sustainable industry and a better working life for thousands and millions of Chinese workers.