

**The textile industry of southern China is slowly migrating**
**The demand for machinery is decreasing / German and Japanese suppliers remain as important distributors for technology**

Hongkong (bfai) – The southern Chinese textile- and garment industry imports a major part of its production technology via Hongkong harbour. Japanese and German machinery is popular, but the demand is decreasing. First companies start migrating into the hinterland or to other south-east Asian countries caused by strongly increasing salaries. The remaining enterprises invest to modernise their factories respectively specialise on high-quality products.

The province Guangdong is heart of the Chinese light industry. The most traditional and, according to the number of companies and employees, biggest branch consists of clothes-, shoes- and textile-manufacturers. Many of them are owned by Hongkong investors who, since the mid 80s, nearly shifted the whole production onto the cost-efficient mainland.

In total, there were, officially, registered more than 6,000 larger branchbusinesses employing just under 2.4 m. people. Hence, one sixth part of all manufacturing companies in the province belong to the textile sector. But those numbers only include enterprises with a minimum sales volume just under half a million Euros. But especially the textile sector is dominated by smaller companies with usually just a few dozen employees. Thus, the total number of all branch firms is supposed to be at least ten times that high.

**Overview textile industry Guangdong (2006) \*)**

Number of branch businesses	6,254, thereof- textile: 2,293- garment: shoes: 2,593- leather, fur, down etc.: 1,368
Employees:	2.4 m.
Output	40.2 bn. US\$
Added value	11.1 bn. US\$

\*) Companies with a minimum sales volume of ca. 500,000 Euros

Source: Guangdong Statistical Yearbook 2007

The pressure put on the textile sector is increasing. Most of all, increasing wages are a big problem for the producers and pushed them into the hinterland of the province. For a long time already, t-shirts and sneakers are not produced any more at high-tech locations as Shenzhen. But even in less developed and more isolated regions of Guangdong one won't find sewers for less than 200 US\$ including ancillary labour costs.

In countries like Cambodia or Laos instead, an employer has to pay his employees between 30 and 50 US\$ only. Therefore, some first producers decided to relocate their whole companies to south-east Asia. So far, Vietnam benefited from that, where round 2 m. people work in the textile sector already.

Who wants to stay in southern China, has to specialise on high quality products respectively invest to modernise machinery. This makes technology from Europe and Japan very popular with the southern Chinese companies. The major part of it is imported via Hongkong harbour. The trading there weakens facing the problems of the southern Chinese textile industry. In 2007 SVR imported textile machinery curtly amounting to 1.1 bn US\$, compared to the previous year a decline of around 8%.

#### Hongkong's trade of textile machinery (per m. US\$) \*)

	2005	2006	2007
Imports	1,200	1,146	1,055
Exports	935	960	953
Sales volume	2,135	2,106	2,008

\*) SITC 724

Source: Census and Statistics Department

Taditionally, Germany and Japan are the most impotant suppliers of technology. Together their parts of Hongkong's imports were clearly over 50%. In 2007 both had to record a high decline in sales. Thus, Hongkong's traders bought sewing machines and other machinery "made in Germany" amounting to more than 260 m. US\$, a loss of 5% compared to 2006.

#### Hongkong's import of textile machinery split into supplying countries (per m. US\$, change compared to the previous year and import contingents per %) \*)

Country	2007	Change	percentage
Japan	332.7	-6.3	31.5
Germany	263.5	-4.9	25.0
China	208,3	-4.8	19.7
Italy	54.0	-1.1	5.1
Switzerland	39.1	31.6	3.7
USA	32.4	-11.2	3.1
Taiwan	27.5	-32.9	2.6
France	11.8	34.1	1.1
Korea (Rep.)	10.6	-10.9	1.0
Singapore	10.4	8.3	1.0

\*) SITC 724

Source: Census and Statistics Department

In future, the suppliers have to be prepared for continually declining respectively stagnating business volumes. Indeed, the slumps won't be dramatic. Despite increasing wages, southern

China provides an excellent infrastructure allowing quick and cheap shipping which is a special advantage for seasonal goods. Hence, no one expects a mass migration. The big textile chains in Europe and the US will still buy to a great extent in southern China.

Therefore, machinery from Germany and Japan should stay required. However, native machinery producers are a threat. Now they are specialised on the supply of private households respectively small companies. But the production of industrial sewing machines for larger companies and export gains importance. According to own statements, the branch captain, the Feiyue Group, for example produces 1.5 m. sewing machines a year, 60% of them are exported.

#### Hongkong's import of textile machinery (per m. US\$, change compared to previous year per %)

SITC Code	Product description	2007	Change
724.3	Sewing machines, including needles and other parts	358.0	-4.4
	.Germany	30.3	-3.5
724.4	Machinery for yarning	39.8	6.1
	. Germany	11.1	32.1
724.5	Weaving-, Knitting - and further machinery	216.3	-28.2
	. Germany	45.0	-44.3
724.6	Auxiliary machines, parts and accessories	199.3	2.9
	. Germany	137.1	14.4
724.7	Machinery for washing, drying, ironing, bleaching, colouring, showerproofing, cutting as well as for the production of flooring	95.8	-16.5
	. Germany	6.6	-38.9
724.8	Machinery for leather processing and production of shoes	41.4	-0.7
	. Germany	2.7	20.6
724.9	Parts for machinery of position 724.7, including parts for household washing machines	104.8	27.3
	. Germany	30.7	35.8

Source: Census and Statistics Department  
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