Competition

Loyalty to China strained by neighbour's lower wages

As export manufacturers battle weak demand and soaring wages in China, a growing number are turning to cheaper alternatives like Indonesia and Vietnam.

TAL, a Hong Kong-owned clothing maker, is paying out $10m in worker compensation to close its 4,000-employee trouser factory in Guangdong province and move it to Vietnam, where wages can be half those in China.

Roger Lee, the company's chief executive, says the prospect of continuous, steep wage rises prompted him to move the plant, which produces for brands such as J Crew and Banana Republic.

He was also driven by the more local work culture in Vietnam, which contrasts with the widespread use of migrant labour in Guangdong and other Chinese manufacturing centres.

"It's hard to build a good reputation as an employer in China because people are so mobile," he says. In Vietnam, the workers tend to come from the area around the factory."

But TAL still has a large shirt-making factory in Guangdong and Mr Lee says that China's advantage is that it has so many of the raw materials in one place, including button, thread and yarn factories.

Willy Lin, another clothing factory owner in Guangdong, believes this unmatchable scale will sustain export manufacturing as a bedrock of the Chinese economy even as more factories shift to cheaper destinations.

"With fashion becoming ever faster, it is hard for south-east Asian factories to deal with so many changes of style because they don't have the experience," he says. "In China, we can still get to sixth gear in a matter of minutes."