

TRAIL OF THREAD

TAL churns out clothing while hanging on to workers and global markets.

DONGGUAN, China — S.N. Yip, 52, director of TAL Apparel Ltd., dreams of retiring and becoming a florist.

But as boss of TAL's giant factory here — where workers produce one out of every seven men's shirts sold in the United States — he's too busy dealing with "super-smarty-pants" retailers, under-capitalized fabric mills, an increasingly demanding work force and a brewing global trade war.



S.N. Yip, 52, director of TAL Apparel, lives in the company dorm for workers and eats in the company cafeteria.

Yip, a Singaporean with an accounting degree from Australia, is relatively new to the rag trade. He joined Hong Kong-based TAL about eight years ago after a career in electronics. For the past four years, he has been managing the giant Dongguan plant with its 5,000 workers.

But Yip, a gregarious man with an impish sense of humor, has learned the dynamics of the business fast. Scribbling frantically on a whiteboard, Yip outlines the traditional functions of every player in the apparel supply chain, from fabric mill to man on the street. Then, with a bold swipe of a blue marker, he says those delineations have vanished.

Manufacturers don't just make clothes anymore. The biggest, like TAL, which produced 55-million pieces of apparel last year for revenues of \$650-million, are taking



A warehouse stores bolts of fabric as far as the eye can see. TAL's China plant is its second-largest facility.

the burden of warehousing, distribution and even design off retailers' shoulders so they can simply market and sell.

"Retailers are under price and time pressure, so we say, 'We'll do all that for you,'" Yip said of manufacturers' strategies to broaden services. "We are stretching ourselves like mad."

That means when a TAL-made shirt sells at JCPenney's store in St. Petersburg, a replenishment order appears on a computer screen halfway around the world and one of

TAL APPAREL LTD.

HEADQUARTERS: Hong Kong

FOUNDED: 1947 by C.C. Lee

EMPLOYEES: 24,000

PRODUCTS: shirts, blouses, pants, knits, outerwear, tailored suits

PRODUCTION: 55-million garments per year

ANNUAL REVENUE: \$650-million

LOCATIONS: Hong Kong, Taiwan, Thailand, Malaysia, China, Indonesia, Vietnam, Mexico

U.S. BRANDS: Ashworth, Banana Republic, Brooks Brothers, Calvin Klein, Claiborne, DKNY, Esprit, JCPenney, Lands' End, LL Bean, Nautica, Nike, Polo Ralph Lauren, Tommy Hilfiger, Nordstrom

PATENTS: no-iron shirt, pucker-free seam sewing technology, water and oil repellent treatment, made-to-measure service

TAL's seamstresses starts sewing. It can take as little as six days for a TAL shirt made in Asia to go from fabric to display shelf. Making sure it all happens like clockwork, with not a minute or motion wasted, are executives like Yip.

To see Yip in action is to understand the challenge facing U.S. apparelmakers as they grapple not only with cheaper, but more sophisticated competition from overseas. TAL is no upstart. The family-owned company was started in 1947 and is run today by the founder's nephew, who holds a doctoral degree in electrical science from Brown University.

Headquartered in Hong Kong, TAL has

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a work force of 24,000 with factories in Taiwan, Thailand, Malaysia, Macau, Indonesia, Vietnam and Mexico, as well as Dongguan. About 85 percent of the company's garments are shipped to the United States, with the rest going to Europe and Asia Pacific countries.

In addition to serving JCPenney, TAL makes pants, shirts, suits and outerwear for Banana Republic, Brooks Brothers, J Crew, Lands' End, LL Bean, Liz Claiborne, Polo Ralph Lauren and Nordstrom, among others. Retail prices for TAL's men's shirts, its best-selling product, start at \$30.

More than one-fifth of TAL's inventory comes from the Dongguan plant, which cranks out 30,000 shirts and 10,000 pairs of pants every day, 5½ days a week. It is the second-largest of TAL's facilities, ranking behind the Thai plant that has 9,000 workers and produces 37 percent of TAL's total inventory.

With 5,000 workers, TAL's China plant is 10 times bigger than the largest apparel factory in the United States. And though 2002 census data shows more than 16,000 factories in the United States of that size, none of them are in Florida.

Yip runs the white-tiled compound in China like a 19th century company town with 21st century efficiency. He insists that all managers be accessible via cell phone 24 hours a day. Yip lives in the multistory company dorm alongside workers (ground floor, corner room) and eats three meals a day in the airy company cafeteria. (Yip said he visits his wife, who lives in Malaysia, twice a year. The couple's two grown daughters live in New Zealand and Australia.)

An ardent horticulturist, Yip added his own touch to the factory's flower garden, planting mango trees along the walkway. Dressed in checkered dress shirt and khaki pants, both from TAL's inventory, Yip impulsively shakes a young tree for visitors, harvesting palm-sized fruit.

TAL's workers in China earn an average of 63 cents an hour for a 44-hour week. About \$11 a month is deducted from their pay for room, board and uniforms. Yip said the Dongguan plant aims to cater to every employee need, offering a clinic, karaoke lounge, Internet-equipped library, basketball court and ATM machine.

"If workers have a healthy mind, comfortable soul and full stomach, I'll make money for the bosses," he said.

TAL has so far avoided the labor strikes that are becoming more frequent in south China, said Yip, who is not surprised by the protests. "It's the bourgeoisie versus the proletariat," he said. "It's a normal characteristic of the whole Industrial Revolution."

Coming to Dongguan is like coming home for Yip, whose grandfather migrated to Singapore years ago from a village just 25 miles from the TAL plant. He thinks his Chinese heritage, which he has tracked back 28 generations, makes him a better manager.

"I'm a banana, yellow on the outside, white in," he said of his combination of Asian ancestry and Western education. "What makes the Chinese tick is very different than what makes Americans tick. An American manager who comes over here goes into shock."

Still, Yip is always eager to get a better read on his workers, who migrate to Dongguan from rural areas all over China. He started a home-visit program, spending one day a week with workers and their families in far-flung villages. During a recent trip, he went to the home of a patternmaker who earned in two months what his peasant father was able to earn in a year.

"There was a new house next to the old one, which had an earthen floor," said Yip, who often sees improvements made with his employees' wages. "The parents were very much taken aback that I was there, but there was a great sense of pride in their son."

Despite Yip's benevolent management style — employees call him the "godfather" — turnover is a constant problem. Management trainees are wooed away by competitors, Yip said. And the plant's seamstresses, who average age 20, have no trouble finding work at the thousands of factories in the surrounding Pearl River Delta. An 8,000-employee garment factory is run by a competitor just down the road. Yip estimates that there are, at any time, about 200,000 job openings in the area.

"When you have 9 percent growth, it's a strain," Yip said, referring to China's blistering GDP growth rate. "Workers have moved from being docile to being a little more choosy. Here in south China, there are always more jobs than people."

Because of this dynamic, TAL's garment factory doesn't fit the sweatshop stereotype. Though the sheer

number of workers is stunning — on a single floor sit 1,500 women and sewing machines in a kaleidoscopic image — the plant is well-lit, well-ventilated and air-conditioned on a muggy day.

Rows of young girls in blue head scarves bend over machines, sewing cuffs, sleeves and slacks that will end up on department store shelves all over America. On another floor, carousels of collars twirl past nimble-fingered finishers. In the cutting room, red lasers align plaid fabric before robotic auto-cutters begin slicing. In the quality assurance area, a row of Kenmore washing machines chug with no-wrinkle shirt samples. In another area, seams of no-iron pants are inspected under black light for flaws.

TAL prides itself on being an apparel innovator and among its patents is one for pucker-free seams, a key component in popular wrinkle-free shirts. (TAL is currently in an expensive legal battle over this patent with longtime adversary Esquel Group, another major Hong Kong apparelmaker.) Reflecting the value of its patent, TAL's seam-inspection area is the one part of the Dongguan plant off limits to a Western photographer.

Constantly scrambling to maintain market share — and improve margins on those accounts — TAL executives criticized the chaos that has resulted since quotas on Chinese



DONGGUAN

- **Population:** 8-million
- **GDP*:** \$8.3-billion
- **Average GDP growth rate (1982-2002):** 22 percent
- **Total foreign trade volume*:** \$44.3-billion
- **Value of exports (2002):** \$23.7-billion
- **Percent of nation's exports*:** 7.29 percent
- **Number of foreign-funded enterprises:** 14,000
- **Biggest industry:** electronic and communications equipment
- **Biggest foreign investor:** Hong Kong

*Cumulative through 2002

Source: Dongguan Bureau of Foreign Trade and Economic Cooperation

Times graphic

apparel exports were lifted at the end of last year. Removal of the restrictions, which occurred in accordance with terms of the WTO agreement, resulted in a flood of Chinese-made garments to the United States and European Union.

U.S. imports of Chinese-made cot-

ton trousers soared a whopping 1,505 percent in the first four months of the year; imports of cotton shirts, meanwhile, were up 1,346 percent.

Yip, who sits on TAL's board of directors and also supervises its 500-worker Hong Kong plant and 100-employee Macau operation, said his company's exports have remained stable, growing about 6 to 8 percent annually.

"The roof is coming down fast," he said in late spring. "A few companies are making the whole industry look rotten. If 1,500 percent growth is not dumping, what is?"

Responding to outcries by U.S. apparel and textile makers, in May the U.S. government reinstated quotas limiting the growth of Chinese imports in seven apparel categories to 7.5 percent for the remainder of the year. The two countries are in continuing negotiations over quota levels for 2006.

In June, the EU and China agreed to limit Chinese exports of 10 apparel categories to between 8 and 12.5 percent growth through 2007.

Yip's employer has been playing the arcane game of global apparel quotas long enough to have mastered its intricacies. With factories all over Asia as well as in Mexico, TAL has been able to ensure supply for its Western customers by qualifying for a variety of country quotas.

Even the majority of the garments

cut, stitched or pressed in Dongguan qualify for quota-free "Made in Hong Kong" status, said TAL's managing director, Harry Lee. The reason: Although parts of the manufacturing process occur in China, critical "origin-conferring" operations, most often finishing, take place about two hours south in Hong Kong.

"Thus, TAL's business is not affected greatly by the reinstatement of the quotas," Lee said in an e-mail. "However the uncertainty is unsettling."

Lloyd Wood, spokesman for the American Manufacturing Trade Action Coalition, said the renewed quota on Chinese apparel imports is just the first step to salvaging what remains of a battered U.S. garment-making industry.

"Not only is China taking away absolute market share from domestic producers," Wood said, "they're taking it away from the world as a whole."

Compared with 19-million textile and apparel industry workers in China, the U.S. work force in those two categories has been reduced by nearly 60 percent over the past decade, declining to 663,000 workers.

"You're seeing manufacturing wages that used to be recycled through our country now being recycled through the Chinese market," said Wood, whose association

is leading the charge to reinstate protections for U.S. apparelmakers despite free-trade mandates of the WTO agreement. "Can we afford not to regain these jobs?"

In China, which exported nearly \$100-billion of apparel worldwide last year, making and selling shirts to the world means money, if only pennies, in the pockets of peasants and millions of dollars for multinational corporations like TAL.

Yip, noting that a Western photographer's boots probably came from a factory just miles from Dongguan, said he found only Chinese-made apparel in U.S. stores during a trip to Vermont last year. From his seat on the front lines of this transformation, such a phenomenon makes perfect sense. More highly educated Westerners should do the retailing and marketing, he said. China, with 1-billion workers, should do the grunt work.

"It's quite understandable that Americans are annoyed, upset and fearful, but American production bases will not ever be able to compete with Asia," Yip said, with the patience of someone coaching a slow child. "In the United States, you want to milk the cow. You don't want to be the cow."

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