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GARMENT MANUFACTURERS FACE CRITICAL TIMES: HOW MANY WILL CLOSE THEIR DOORS

Say Goodbye To Sweetmart Garment Works Ltd

Many manufacturers of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) are facing situations of severe financial crises – crises from which they may never recover.

The High Court of the HKSAR will, no doubt, be inundated with claims against manufacturers of garments and textiles, which are producing their goods in the PRC, proper.

Over the past 3 decades or so, HKSAR manufacturers of garments moved their production facilities to the PRC, proper, where land is plentiful and much cheaper than in the HKSAR, and where labour is in abundance and at wage levels, which are very competitive to the HKSAR.

It has been good times for many of these manufacturers, but, today, things appear to have taken a downward spiral.

Quite a number of HKSAR banks, the managements of which **TARGET** has spoken, recently, said that they are more than a little concerned about many of their customers, who have clothing factories in the PRC, proper.

One manager of a very large HKSAR bank went so far as to suggest that he thought that one of his very old customers has done a runner.

The manager (**TARGET** has agreed not to name him or his bank) said:

> *'This is a very old and, formerly, a very good customer. But, it is clear, he is in financial trouble. When I telephone his Hongkong office, if I can get through to him, he tells me, briefly, that everything is OK and that he knows that he is behind in his payments to us. Then, he claims that somebody is waiting to talk to him … apologises, and, then, smartly hangs up.'*

The current problem of HKSAR manufacturers with facilities in the PRC, proper, all came to a head back in July, this year, and coincided with the agreement on Chinese-produced textile imports into the **E**uropean **U**nion (EU).

The preamble and gist of this historic bilateral agreement are:

> The European Commission and the Ministry of Commerce of the People's Republic of China, pursuant to the **W**orld **T**rade **O**rganisation (WTO) principle of encouraging its Members to settle their differences by way of consultation, engaged in consultations on the export of certain Chinese textile and clothing products to the EU until the end of the year 2008 in Shanghai, China, on June 10, 2005.

They reached the following understanding:

1. Chinese textile exports to the EU in 10 categories of concern will be limited to agreed growth levels until the end of 2007;

2. This agreement will cover 10 categories of the 35 categories of Chinese imports liberalised on January 1, 2005: Pullovers; men's trousers; blouses; T-shirts; dresses; brassieres; flax yarn; cotton fabrics; bed linen; and, table and kitchen linen. It covers the categories of serious concern, including most of the categories, identified by the European Textile Association (Euratex) and the 2 categories for which the EU had already launched formal WTO consultations with the Chinese: T-shirts and flax yarn;

3. The EU agrees to end the ongoing investigations, concerning these product categories; and,

4. The agreement limits growth in imports in the 10 categories to between 8 percent and 12.5 percent per year for 2005, 2006 and 2007. These levels will be calculated on a base that includes either 2 months or 3 months of post-quota trade levels. In those categories, for which growth is, initially, set at 8 percent, agreed growth rates will rise over the 3-year period.

The background to the above agreement was that, with the expiry of the WTO Agreement on Textiles and Clothing, on January 1, 2005, all WTO Members were required to lift their remaining quotas on textiles trade.

The Uruguay Round provided for the gradual liberalisation of this trade over a period of 10 years from January 1, 1995 to December 31, 2004, allowing time for adjustment.

The European Commission believes that the removal of quotas in global textile trade is important for progressive trade liberalisation.

Free trade in textiles will provide global competitive disciplines that will improve productivity and lower prices for consumers.

This competitive pressure is being driven, chiefly by the PRC, whose formidable production and export capacity will quickly reinforce its status as one of the world's largest producers and exporters of textiles and clothing products.

The agreement between the PRC and the EU provides a 3-year breathing space where growth in PRC imports in sensitive categories will be capped at considered to be by the negotiating team as being reasonable levels.

These caps will, nevertheless, be high enough to allow the PRC to benefit from liberalisation, as it has a right to expect.

Factors that had to be considered by both countries in reaching the above agreement included:

- China is the EU's second largest trading partner. Their trading relationship was worth 174 billion euros in 2004;

- China is the second largest exporter to the EU after the US. The EU imported more than 126 billion euros' worth of goods in 2004 – 12 percent of the EU import market. EU imports from the PRC rose by 17 percent between 2002 and 2003 and 20 percent between 2003 and 2004;

- EU exports to the PRC have also been growing. The PRC is, now, the third export partner of the EU. In 2004, the EU exported 48 billion euros' worth of goods to the PRC – some 5 percent of all EU exports. This is an increase of 16 percent on 2003. It is estimated that in less than a decade, the PRC market for luxury European goods will have risen to about 250 million people;

- The EU is the world's second largest textiles' exporter after the PRC. In 2004, Europe exported 514 million euros' worth of textiles to the PRC. In the same year, the PRC exported 16 billion euros' worth of textiles to Europe;

- The EU's main exports to the PRC are non-electrical machinery, transport equipment and chemical products. The PRC's main exports to the EU are office and telecommunications equipment, textiles and clothing.

<u>How Sweet It Is Not !</u>

While the above may make admirable sense to both the EU and the Government of the PRC, for the Wong Family of Sweetmart Garment Works Ltd (威馬製衣廠有限公司) of the HKSAR, it is a very bitter pill to swallow.

Because Sweetmart Garment Works, probably due to little fault of its own, is, clearly, in financial trouble, as are the members of the Wong Family, which control it.

And, no doubt, the EU-PRC quota agreement of last June is the trigger, which fired, what may well be, the killing bullet.

Standard Chartered Bank (Hongkong) Ltd recently issued a Writ of Summons in the HKSAR High Court, seeking about $HK17.27 million from the following parties:

Sweetmart Garment Works Ltd	First Defendant
Wong Chit Ming	Second Defendant
Wong Tze Cheong (王子昌)	Third Defendant
Wong Tze Tim (王子添)	Fourth Defendant

The Statement of Claim, attached to Writ of Summons Number 1807, alleges that Sweetmart Garment Works, the First Defendant, is a customer of Standard Chartered Bank and that the Wong Family members – the Second, Third and Fourth Defendants – are guarantors of the debts of Sweetmart Garment Works up to the limit of $HK20 million.

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