

**HIGHER LABOUR COSTS IN CHINA EAT INTO PROFIT MARGINS –
HONGKONG INDUSTRIALISTS FORCED TO PAY BRIBES !**

Aside from the rapid increases in raw material prices over the past year, wages for unskilled and semi-skilled workers in the southern part of the People's Republic of China (PRC), especially near the border with the Hongkong Special Administrative Region (HKSAR), have risen between 10 percent and 40 percent, according to a **TARGET** () survey.

For manufacturers of housewares, therefore, they are facing a double problem: Trying to pass on the increasing cost of raw materials, such as aluminium and copper, and the added – and seemingly unstoppable – costs, associated with labour in the PRC, proper, as opposed to the HKSAR of the PRC.

In addition, it is now commonplace in the Shenzhen area of the Guangdong Province of the PRC, an area which abuts the HKSAR, for petty government officials to squeeze additional '*contributions*' out of the most successful enterprises in the Guangdong Province.

The definition of '*the most successful enterprises*', simply put, means those enterprises, hiring the most number of staff.

According to one HKSAR industrialist with a factory in Shenzhen – **TARGET** has agreed not to mention the company's name – he has been faced with an increase in labour costs, over the past year, of about 40 percent.

His factory employs about 5,300 workers so that such an increase has cut deeply into profit margins.

He told **TARGET** that in spite of the increases in the cost of copper wire, which is the main raw material, used in the production of his goods, his only real consideration is the ever-rising cost of labour in the region.

Since his factory is vertically integrated, it is difficult to relocate.

According to the statistics, compiled by The New York Mercantile Exchange (NYMEX), the price of copper rose between 122.88 percent and 132 percent in the month of June 2006, compared with June 2005.

As for the price of aluminium, the price rose between 43 percent and 46.32 percent in June 2006, compared with June 2005, NYMEX statistics indicate.

For manufacturers of housewares, therefore, these industrialists face insurmountable problems; they will be forced to bite the proverbial bullet, no doubt.

Manufacturers of housewares are required to produce catalogues of their products, complete with prices.

These catalogues are prepared as far as 8 months ahead of receiving orders and, since the prices are clearly stated in these catalogues, the HKSAR manufacturer is bound to produce and deliver his goods in accordance with published prices.

In the garment industry, it appears that the largest producers will see profit margins pared, but not as much as many other industries.

In a conversation with the Chairman of one of the largest manufacturers of garments in Asia, **TARGET** was

told that wages for his workers have risen in the past year by between 8 percent and 10 percent.

It appears that the price of raw cotton, which is the essential raw material for this company's garments, has not increased appreciably, during the past year, so that the only real increase are the wages for his 5,000-plus workers in the Guangdong area of southern China.

Also, there is a thriving forward market in cotton futures, allowing HKSAR manufacturers with facilities in the PRC, proper, to control the price of cotton for at least one year in advance.

The labour content for the garment industry, **TARGET** was told, was not more than 45 percent of total costs so that an increase of between 8 percent and 10 percent per annum will have little impact on unit prices.

However, there are growing labour shortages in Guangdong, today, **TARGET** has confirmed.

In the Pearl River Delta, the Opportunity Cost in respect of obtaining suitable and a plentiful supply of labour is becoming more and more expensive.

Many prospective workers in outlying areas are opting to work in other provinces, other than Guangdong, because wages can be considerably higher and work is closer to home.

Manufacturing costs aside, **TARGET** has confirmed that petty government officials in the Guangdong Province are in the habit of selectively soliciting funds from HKSAR industrialists, using myriad stories in their fund-raising activities.

As **TARGET** was told:

'There is no way to stop this activity. If you cross these people, you are in real trouble: They can make life impossible for you in the region. The best way out is to pay up.'

'Of course, it is corruption! But one has to pay because there is no alternative. It is the cost one has to pay to manufacture in China, today.'

'It will take decades before such practices are stamped out.'

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