

# China – the aftermath of the financial crisis

*How the financial crisis is affecting production in small to medium size enterprises in China today.*

David Edis-Bates June 2010

My feelings at the end of 2009 were exemplified by an enormous sigh of relief that the financial troubles of the past year were on the turn and prospects for us in China looked really promising compared to the disaster of the previous year. The position here did not seem as bad as the situation described in the worlds press elsewhere and, in my mind, China had got away with things more lightly than expected, which may well be the case with such an enormous and growing internal market.

The situation since the beginning of 2010 has been very good for order intake but very difficult in many and various ways to satisfy those orders.

Chinese New Year was early both according to the calendar and earlier still as far as production was concerned as many factories, who have some control over their holiday start and finish dates, encouraged employees to return home early. In China most factories that we deal with have migrant labour from the countryside who travel home at New Year. So many of the factories closed their doors during the first week of the month despite the official date for New Year being 14<sup>th</sup> February. Orders that we expected to be finished before the holidays in some cases were held back.

In a similar way the holiday period lingered on well after the expected return to work dates, some suppliers paid off staff or didn't ask them to return and many were very late starting up again with a reduced workforce only in full production at the end of March. The previous year was quite different with a relatively short holiday and virtually no abnormal delays to production.

Perceived regional differences in pay and conditions this year possibly resulted in many employees not

returning to the South of China after the New Year. Conditions in North East China in particular were seen as more attractive. As you may have seen in the press companies like Foxconn and Honda both in Guangdong nearly doubled their pay offers to attract employees back. Maybe this also contributed to labour shortages seen in other factories and raw material suppliers.

As a result suppliers to our manufacturers were unable to supply on time since they too were suffering the problems of labour shortages, coupled with a lack of stock, particularly of steel.

One integrated circuit manufacturer closed and dismantled a complete factory resulting in a shortage of ICs for one of our main amplifier products which had to be sourced elsewhere. This component is now on a 4 month lead time and we've had to order well in advance to secure production, especially now that demand is racing away.

New labour laws have been introduced in some areas (or possibly nationally) this year, which restrict normal working hours and require overtime to be paid. This has had a major effect on cutting back the working week in some industries and factories that comply, since overtime is rarely if ever paid.

There also seems to be a tightening of finances generally in manufacturing, as I guess the slowdown in 2009 has resulted in an over trading position in 2010 with companies short of cash and consequently raw material suppliers are very low on stock or in a long back order position.

Things are improving, albeit very slowly as the world economy picks up and confidence returns.

## About the author

David Edis-Bates, C.Eng MIET has spent more than 30 years in export related activities around the world, he lived in Taiwan for 4 years in the 70's and in China for the past 5 years. He taught part time in further education for several years in the UK and is currently CEO of [Edis Trading \(HK\) Limited](#)

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