

No Rush Into China

Despite the end of global textile quotas next year, not all garment makers are heading for China—at least not yet

WITH THE LIFTING OF global textile quotas on January 1, 2005, clothing manufacturers are moving to China to take advantage of cheap, efficient labour. But the managing director of Textile Alliance Limited (TAL) says the influx isn't as fast as he expected.

"I do not see a sudden rush into China," says Harry Lee, who joined his uncle's company in 1973 and worked his way up through the ranks. "It will come, but the change is going to be slower than I thought."

TAL, one of Hong Kong's largest garment makers with annual revenue of about \$600 million, already has a factory in Dongguan in Guangdong province. One reason it's not building a second is that Beijing blocked a deal it had to buy farmland on which to build. The land crackdown is part of the Chinese government's efforts to cool the overheating economy and curb illegal land deals being made by local officials.

Lee says another reason TAL won't yet expand is the United States' threat to impose a one-year import quota on China-made garments after January 1. The U.S. government faces pressure to invoke a "safeguard mechanism" from domestic lobbies such as the American Manufacturing Trade Action Coalition, which says quota-free imports from China will displace more than 650,000 jobs in the American textile industry.

Lee believes TAL can afford to wait out these storms before expanding in China. He's confident TAL factories in Thailand, Malaysia, Taiwan, Indonesia, Hong Kong and, most recently, Vietnam are efficient enough to keep the company ahead of the competition. Among TAL's customers are big U.S. retailers like JCPenney, Brooks Brothers and L.L.Bean, which Lee says are willing to pay extra to get high-end products made to specification.

Quality, Lee says, is what buyers won't find from upstarts in China. "More people will be rushing in from the lower-end market," he says. "They can keep inventory longer. They don't have the

specifications . . . I know of one company that moved an entire luggage-production [operation] from Thailand to China in six months."

But no matter how you look at it, labour costs in the mainland are lower than many other countries. TAL's 500 factory workers in Hong Kong, for example, make about \$897 per month, while its 4,500 labourers in Dongguan get paid about \$97. Lee admits that this wage disparity will mean fiercer competition from manufacturers based in the mainland. "After 2005 I don't know who the competitors will be," he says. "They might come out of left field."

TAL has a three-pronged approach to stay at the top in coming years: value-added services such as on-line inventory; strong customer relations; and research and development. TAL is already wrapped up in a patent suit with rival Esquel, one of the world's largest cotton-shirt makers, over a pucker-free seam for shirts. Lee says he won't comment on the case until a settlement is reached. But such battles show the increasing importance for apparel makers to not only produce goods, but to innovate as well.

Meanwhile, until quotas are lifted TAL will continue to get around the system the way it's been doing for years. "We do all the cutting and parts in China, and do the assembly in Hong Kong to qualify for the 'made in Hong Kong' label," Lee says. "We do not export [a single shirt] from China into any restricted countries, meaning the U.S. or Europe."

There's no doubt the end of quotas will mean more competition for TAL and other garment giants. Lee, however, is no stranger to challenges. When he decided to go into business he had a background in research and a doctorate in electrical properties from Brown University in the U.S. Despite this unrelated career track, his uncle put him in charge of a struggling 3,000-worker factory in Malaysia.

"I had no experience in running any factory . . . so I asked a lot of questions," Lee says. After a few years with him at the helm, quality improved, efficiency went up, and the factory was running—in Lee's soft-spoken words—"quite well."

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