

China - Adapt or die

By Ben Bland

Long the engine of the country's growth, manufacturers are now struggling with a slowing economy, falling orders and rising labour costs. What are they doing to survive?

Hyde Xu, sales manager at GKO, a Chinese maker of aluminium products, has come to the Canton Fair - the country's biggest trade show - not so much to do deals but to show customers "we are still alive".

"Exports are not good and the domestic market is also bad," says Mr Xu, throwing his hands up in resignation. "The price of shipping containers for export has fallen by half (...) and now freight companies as well as factories are worried about going bust."

While they are accused of dumping on international markets, many Chinese metals producers have already gone out of business themselves because of massive oversupply, a slowdown at home and an uncertain global outlook. GKO, based in Zhejiang province, has responded by pushing its suppliers to cut costs and developing new, higher value products.

After riding China's construction and car market booms, the company is now trying to tap into another part of the world's second-biggest economy, one that is still growing: tourism.

GKO has recently started producing lightweight aluminium suitcases, similar in appearance to the luxury models made by Samsonite and Rimowa and adored by Chinese travellers, but at half the price. Having specialized in producing huge rolls of aluminum sheet, which were later made into car parts and building decorations, GKO invested in new machines to press its raw material into suitcases.

"If we just sell simple aluminium products it's hard to make a profit, so we have to find new business lines or we will die," says Mr Xu.

Across Zhejiang and south to Fujian and Guangdong, the provinces that form the heart of China's factory belt, companies such as GKO are under pressure like never before.

Global demand remains weak with Europe still struggling to emerge from years of crisis, the US recovery tepid



Staff members work on the production line at the Foxconn complex in Shenzhen

and emerging markets such as Brazil and Indonesia struggling as China's appetite for their commodities has waned.

The Chinese economy continues to slow, with annual gross domestic product growth officially down to 6.9 per cent in the third quarter from double digits in the 2000s. Many analysts question the official data and believe the real economic performance is much worse.

In a negative feedback loop, worries about China are now further undermining confidence in advanced economies. Janet Yellen, chair of the US Federal Reserve, recently flagged "heightened concerns about growth in China and other emerging market economies" as a threat to the US recovery.

If the macro picture is bad, the micro view for China's manufacturers, a key engine of economic growth, innovation and employment, is no better. The government does not release comprehensive data on the nationwide scale

of jobs losses and business closures. But factories have been shedding jobs for two years, according to the purchasing managers' index produced by Caixin, a respected financial news organization.

Caixin's latest PMI, which incorporates more private sector companies, and the government version, tilted more towards larger state-owned industries, both indicated further contraction in the manufacturing sector in October.

Factories that are cutting costs and offering discounts

to survive are also contributing to deflationary pressures, with the annual producer price index having fallen for 44 consecutive months.

While prices are slipping, other costs are still high and rising, especially the key component, labor which typically accounts for around a quarter of expenditure for exporters. Average factory worker wages in China have more than quadrupled over the past decade, according to the Conference Board, a US business lobby group.

Beijing's preferred solution

is for companies to "move up the value chain" and make more advanced products with stronger brands. Mobile phone producer Xiaomi is a prime example.

But that requires financing, which is hard for many smaller private-sector manufacturers to secure when state-owned banks are pushed by the government to maintain support for struggling state-owned industries.

Manufacturers are increasingly squeezed, having to negotiate a structural shift away from low-cost production at a time when they also face strong headwinds.

Xu Bing, a Canton Fair official, warns that "the traditional advantages of our country are weakening and the new competitive edge is not yet consolidated". Since the opening up of the country accelerated in the 1980s, nimble factory owners - the street fighters of the Chinese economy - have always responded to changing consumer tastes and global demand. Now,

more than ever, they must adapt or die.

The private-sector factory owners trying to adapt their business models are driven by survival instincts rather than Chinese Communist party rhetoric. President Xi Jinping and other top officials have repeatedly emphasized the need for China to rebalance its economy toward consumption and services, and away from construction and investment.

At the same time they want to upgrade industry under the "Made in China 2025" initiative, which is designed to create more skilled jobs and promote innovation in areas like pharmaceuticals, aerospace and new energy.

Funds have been freed up for local governments to support the development of industrial robots to reduce the reliance on human labor as factories struggle to find enough workers at low enough wages to remain profitable.

But economists argue that, after an initial push, the gov-

“ The traditional advantages of our country are weakening and the new competitive edge is not yet consolidated.

XU BING
CANTON FAIR OFFICIAL



China - Adapt or die (continued)

ernment's reform drive has lost pace and focus because of the economic slowdown. "The government has been caught off guard and has switched its attention to stabilizing growth, thereby compromising the structural reform push," says Louis Kuijs, the Hong Kong-based head of Asia for Oxford Economics.

appliance producer, and SAIC, one of the top four car-makers, have been hoping to boost sales in emerging markets but they too are stalling.

Meanwhile, the manufacturers that have traditionally focused on exports are finding it difficult to switch their focus to the domestic market.

Willy Lin, who runs a factory

The government does not release comprehensive data on the nationwide scale of jobs losses and business closures

"The overall numbers show that China is starting to move up the value chain but, at the level of individual companies or sectors, this comes alongside a lot of short-term challenges and pain."

With their products still deemed inferior in many advanced markets and demand at home slowing, successful domestic manufacturers like Haier, China's largest home

making high-end knitwear in Dongguan, one of Guangdong's main industrial cities, says that China seems like a great potential market for companies such as his, which exports 90 per cent of its products to Europe and 10 per cent to the US. But he says the credit risk is too high, especially in the current climate, and that domestic buyers lack the sophistication of their in-



A foreign purchaser visits the China Import and Export Fair, or the Canton Fair, in Guangzhou

ternational counterparts, with unrealistic expectations of pricing and little understanding of production.

Peter Helis, who runs an investment consultancy in Foshan, another sprawling industrial city in Guangdong, argues that despite these limitations, more manufacturers will look to the domestic

market as consumer buying power rises and Chinese retail develops.

He says that while the headlines look bleak, the prospects for different parts of the country are diverging. "The most northerly provinces are dominated by state-owned companies and heavy industry, and they are talking about a deep

recession," he explains. But southern Guangdong, dominated by private exporters, is faring better.

With the government's reform drive stalled and no sign that the slowdown is going to reverse any time soon, much of the heavy lifting in terms of growth and rebalancing in China will have to come from

the nation's factories, which still account for just under 30 per cent of economic output, according to Mr Kuijs.

Whether they are creating luxury toilets and trendy scooters or streamlining the production of metal pipes and clothing, their fate will help determine the success or failure of the government's restructuring strategy.

Andrew Wang of ERA, a maker of solar-powered equipment, typifies the factory owners' pragmatism. "We always have to adapt," he says as he shows off his company's latest products: cut-price solar chargers for mobile phones. "The collapse of the price of solar panels has been bad for those making them but it's allowed us to start producing these cheap chargers, which are selling really well."

Copyright The Financial Times Limited 2015

Loyalty to China strained by neighbor's lower wages

As export manufacturers battle weak demand and soaring wages in China, a growing number are turning to cheaper alternatives like Indonesia and Vietnam.

TAL, a Hong Kong-owned clothing maker, is paying out \$10m in worker compensation to close its 4,000-employee trouser factory in Guangdong province and move it to Vietnam, where wages can be half those in China.

Roger Lee, the company's chief

executive, says the prospect of continuous, steep wage rises prompted him to move the plant, which produces for brands such as J Crew and Banana Republic.

He was also driven by the more local work culture in Vietnam, which contrasts with the widespread use of migrant labor in Guangdong and other Chinese manufacturing centers.

"It's hard to build a good reputation as an employer in China

because people are so mobile," he says. In Vietnam, the workers tend to come from the area around the factory."

But TAL still has a large shirt-making factory in Guangdong and Mr Lee says that China's advantage is that it has so many of the raw materials in one place, including button, thread and yarn factories.

Willy Lin, another clothing factory owner in Guangdong, be-

lieves this unmatched scale will sustain export manufacturing as a bedrock of the Chinese economy even as more factories shift to cheaper destinations.

"With fashion becoming ever faster, it is hard for south-east Asian factories to deal with so many changes of style because they don't have the experience," he says. "In China, we can still get to sixth gear in a matter of minutes."

Prices fall as orders shrink at the Canton Fair

Held twice a year in Guangdong's provincial capital of Guangzhou, the Canton Fair was originally established in 1957 as the only place where foreigners could buy products made in a nation then closed to outsiders.

Despite the rise of ecommerce portals such as Alibaba, the fair remains the major showcase for Chinese products and a must-visit event for tens of thousands of traders, distributors and retailers from Brazil to Benin and Albania to Australia.

Inside three huge exhibition halls, manufacturers sell everything from the mundane - taps, electrical cabling and floor tiles - to the cutting edge of 3D printers and crop-spraying drones.

Attendance at the trade show, which closes today, was 140,000 - down 7 per cent from last year. And while the mood among factory executives was gloomy, buyers saw an



Exhibitors arrive at the Canton Fair

opportunity to cut prices, negotiate better trade terms and secure smaller order sizes.

Jayesh Vyas, an Indian trader, has been attending the fair to source

electronics and furniture since 2001. "I was just talking to a factory selling stainless steel shelving," he says. "They were willing to reduce their minimum order size from 500 to just

50 pieces. That's how bad things are."

As factory owners battle with falling orders, many are following the example of GKO, the troubled aluminum maker, by pushing more advanced products and targeting the domestic market.

Megmeet, based in Shenzhen, the first of the special economic zones that drove the transformation of China's economy in the 1980s, built its business manufacturing basic components such as power supplies and heaters. But it has reinvented itself as a maker of own-brand, high value consumer products like its new range of \$2,000 "smart toilets".

"Every Chinese person has an iPhone now, even cooks and cleaners, so if rich people want to show their status the best way is with an expensive toilet," argues Andy Yang of Ikahe, Megmeet's toilet-making subsidiary.

In business terminology, the "piv-

ot" is usually reserved for Silicon Valley start-ups who fail at one idea and then switch direction, refocusing their brainpower and venture capital funding on an altogether different market. More and more Chinese factories are being forced to take this approach but not all succeed.

Facing cut-throat competition and waning demand for its hedge trimmers and chain saws, toolmaker Gezhi decided to move in to self-balancing, one-wheel electric scooters. But what the Zhejiang-based company hoped would be a Christmas best-seller turned out to be an embarrassing flop.

"To be honest, they are too hard for many people to ride," admits Jason Liao, sales manager for Gezhi. "After one month of trying, even I was still falling off sometimes."

Copyright The Financial Times Limited 2015

By Will Leitch

Kind of dead as Trump hosts 'Saturday Night Live'

THERE'S a certain look a cast member gets that longtime viewers of "Saturday Night Live" can instantly recognize. In many ways, it's this look, and the performer's mastery of it, that separates the truly great "SNL" performers from your run-of-the-mill hacks. You know this look: It's the "this is bombing, isn't it?" look.

Different performers handled it different ways. Will Ferrell would barrel onward, as if trying to physically bully the material into being funny. Phil Hartman would never break, treating every sketch like it was Scripture no matter how hammy. Jimmy Fallon would famously just start giggling. But the look is as undeniable as it is terrifying: There are millions of people watching me not be funny right now, and there's nothing I can do about it. It's as close as you can come to being completely naked on network television.

That look of discomfort, that "it's gotta be getting close to 1 a.m., right?" that the entire cast of Saturday Night Live had during the Donald Trump-hosted show was impossible to miss, and all told, even Trump himself sort of had it. What might have seemed like a good idea initially - rather than have Trump do a walk-on, why not just have him host the whole show? What could go wrong? - was a disaster in practice, with both the host and the cast doing what they could to undermine the material and act like they were anywhere else but on stage. Some of the best Saturday Night Live sketches of the last decade have involved actual political figures having fun lightly skewering their personal foibles and exaggerating their weaknesses, including the infamous QVC sketch a few days before the 2008 election in which Tina Fey mocked Sarah Palin just a few feet away from John McCain, who happily played along. But no one had the energy for that this time. They

AP PHOTO



Protesters opposed to the appearance of Republican presidential candidate Donald Trump as a guest host on this weekend's "Saturday Night Live"

all looked like they'd rather be anywhere else.

The whole cast was clearly off its game. "Weekend Update" hosts Colin Hanks and Michael Che flubbed their intro and didn't even feel particularly compelled to correct it. A musical sketch late in the show featuring Trump playing a "laser harp" somehow seemed simultaneously to never start yet never quite end. Trump's monologue relied on two separate Trump impersonators. The "political" sketch was a thinly written, poorly (deliberately?) performed imagined 2018 Trump Oval Office, with lame

jokes like the President of Mexico delivering Trump a check for his wall and Trump making Vladimir Putin cry. (It also featured a "surprise" cameo by Trump's daughter made all the more painful by the audience having no reaction to her.) This hasn't been a great season for Saturday Night Live so far, but I swear, it's not usually this bad. No one's heart was in it.

As you might suspect, Trump wasn't required to work too hard. Worries about equal time laws aside, Trump showed up in several sketches but was never required to do much more than make some Trump grunting faces, with the possible exception of him doing a Hotline Bling dance in a sketch that might have been funnier if there

hadn't been roughly 90 billion Hotline Bling remixes on the Internet in the last 10 days (<https://vine.co/v/eLLFIQ2ivMe>)

The sketch that seemed to sum up the cast's view on Trump's appearance was one in which Trump announced that he would live Tweet. He didn't actually Tweet the sketch - though I, like surely millions of others, went to check anyway - but instead fake Trump Tweets insulting the cast popped up as the cast members slowly checked out of the screen and ultimately began trying to crawl out of the shot. By the end of the sketch, after fake Trump joked about "the blacks," cast member Leslie Jones pretended to rush the camera in rage, and the feed went out.

Like Larry David - once again, the funniest part of the show as Bernie Sanders, in a cold-open political sketch that, oddly, didn't even mention Trump - pretending to yell "you're a racist!" at Trump during his monologue, it was a winking meta-nod to the controversy of Trump hosting that allowed "SNL" to have its cake and eat it too. It could pretend it was above having Trump around solely to goose the show's ratings while, you know, not being above it at all. There was a time when cast members openly revolted against hosts they didn't want to be associated with, as in the famous week that Nora

Dunn refused to be on set with Andrew Dice Clay. But tonight was far more passive aggressive than that. There wasn't a cast member who didn't consciously shrink.

Did Trump do himself any good with his appearance? It's tough to see how. He wasn't particularly funny - it's always good to remember that being a showman in the realm of politics and a showman in the realm of entertainment are two far different things - and he didn't look comfortable either. (Also: His suit was too big on him.) He surely will increase SNL's ratings, a fact he'll happily boast about it, but in a way that probably doesn't benefit him or the show: He looks more like a huckster - the show actually made him look a little small, though again, maybe that was the suit - and the show got a lot more eyeballs to watch one of the worst episodes of the last several seasons. There was no breakout, instantly memorable moment, which ultimately seems to be by design. It was a night that everyone involved with wanted to move past as quickly as possible and hope no one ever discusses it again. It shouldn't make much of a dent in the news cycle, but the oral history written five years from now, with the cast members talking about that lost, dead look they all had in their eyes the week Trump hosted ... now that'll be a must-read. **Bloomberg**

“It was a night that everyone involved with wanted to move past as quickly as possible and hope no one ever discusses it again.”

AP PHOTO



Donald Trump

Toxic air in India worse than Singapore haze a test for Modi

THE air pollution meter buzzed and spat out a stunning result: levels of PM2.5 - tiny, toxic particles that lead to respiratory diseases - were 27 times the safe limit near the Indian parliament in New Delhi on Wednesday morning.

The reading of 675 micrograms per cubic meter of air exceeded the highest measured this year in Singapore, where PM2.5 levels touched 471 in October as Indonesian plantation fires led to some of the murkiest haze the city state has seen.

U.S. satellite images indicate the smog in New Delhi is being thickened by smoke billowing south from Punjab state, where farmers are flouting a ban on the use of fires to clear straw and waste crop. That's just one example of how India struggles to impose environmental rules, showing the challenge Prime Minister Narendra Modi faces to implement wider initiatives - including curbing greenhouse gas emissions under a plan filed with the United Nations.

India in October was the last major nation to submit its



Traffic makes way in haze mainly caused by air pollution in Delhi, India

approach to tackling emissions ahead of a landmark UN climate change conference in December, pledging to cut their intensity about a third by 2030 from 2005 levels. Modi wants clean energy sources such as

solar and wind to account for 40 percent of installed electricity capacity in 15 years, reducing reliance on coal.

The World Bank in 2013 put the annual cost of environmental degradation in India at 3.75

trillion rupees (USD57 billion). The question is whether the nation, one of the world's top polluters, has the ability to measure emissions accurately, impose environmental regulations and fund the \$200 billion clean energy expansion the government is targeting.

The U.S. embassy in New Delhi on Wednesday morning classed the city's air as hazardous. It advised avoiding all physical activity outdoors, adding that vulnerable people and children should stay inside.

Tiny particulate matter in high amounts can cause respiratory disease by going deep into the lungs, as well as harm the heart and enter the bloodstream. The World Health Organization's 24-hour mean guideline for PM2.5 is 25 - a fraction of the reading in New Delhi on Wednesday.

Vehicle fumes, another contributor to the city's pollution, illustrate the challenge of lax emission controls. India's Central Pollution Control Board in 2013 reported that some centers conducting vehicle checks

had faulty or fake software. There are about 8.8 million commercial and passenger vehicles on the capital's roads.

A panel of lawmakers in April blamed inadequate monitoring and enforcement for a sharp rise in pollution across India. The committee said regional environment offices were understaffed and that the number of industries inspected has declined in recent years.

Aside from cars and trucks, millions of India's poor burn fires for domestic use as well as farming. Wealthier folk use belching diesel generators as grid electricity is unreliable.

Modi's agenda for a cleaner India includes steps to attract green investment. Tycoons including SoftBank Group Corp.'s Masayoshi Son, Foxconn Technology Group's Terry Gou, Liang Wengen of Sany Group, Chint Group Chairman Nan Cunhui and Bharti Enterprises Pvt.'s Sunil Mittal have announced plans for at least \$25 billion investment in renewables.

At the same time, budget allocations for the federal Environment Ministry have declined for two straight fiscal years.

Air pollution claims an estimated 650,000 lives annually in India, according to Johannes Lelieveld, a professor at the Max Planck Institute for Chemistry in Germany. **Bloomberg**

ASK THE VET

by Dr Ruan Du Toit Bester



IS SPAYING A DOG IN HEAT POSSIBLE?

SPAYING a dog is recommended, so that she will no longer get pregnant and give birth to puppies that may not find homes. However, spaying a dog in heat is a controversial issue. The spaying procedure itself is not complicated, but when it is performed in dogs in heat, the procedure may be more complex and complications may occur.

HEAT PERIOD IN DOGS

The heat period in dogs can start as early as 6 months of age. Some larger breeds will become mature at 12 or 18 months. Only female dogs come into heat, and for a few days during this period, the dog can become pregnant if fertilized by a male dog. During the heat period, the dog will attract male dogs and it is very likely that she will mate and become pregnant. For this reason a lot of owners would like to spay the dog to prevent an unwanted pregnancy.

SPAYING IN DOGS

Spaying in dogs is a procedure that will remove the ovaries, so that she will no longer be fertile and won't be able to come into heat and become pregnant. A lot of pet owners opt for spaying to control pregnancies and unwanted puppies. The most recommended time to spay

a dog is **just before or after the first heat cycle** (can happen at 6 months or even at 18 months). Performing the surgery at this time will make the surgeon's task easier. The younger the dog spayed and the fewer heat cycles or pregnancies she has experienced, the easier the spaying procedure will be.

SPAYING A DOG IN HEAT

The spaying procedure can be performed while the dog is in heat, however, it will be more complex and the surgeon will have to be extra skilled to prevent complications. During the heat cycle, the dog's uterus and ovaries will be swollen, so the surgery will be more complicated and the bleeding during surgery will be more intensive. The dog may lose a lot of blood and this can be fatal in some cases. For these reasons, many vets refuse to perform a spaying procedure when a dog is in heat. However, in theory, the procedure is possible during the heat period and we do it all the time at our hospital, so don't let this put you off.

OTHER MEANS OF PREVENTING PREGNANCY DURING HEAT

During the heat period, the female dog disperses different odors that are smelled by male dogs from a con-



siderable distance and make the male dogs want to mate. If you don't want to spay your dog during the heat period, you can prevent her from getting pregnant by keeping an eye on her at all times. Keep your dog indoors while in heat and when you walk her, you should keep her on a leash. After the heat period you can spay your dog safely without many surgery risks.

Spaying is beneficial for multiple reasons. The dog will have a more obedient behavior and fewer reproductive system and mammary cancer risks. Preventing pregnancies will also prevent an overpopulation of dogs. Numerous dogs ne-

ver find a home and may end up on the streets or put to sleep as we well know is the case in Macau.

Hope this info helps
Till next week
Dr Ruan

Ask the Vet:
Royal Veterinary Centre
Tel: +853 28501099, +853 28523678
Fax: +853 28508001
Email: info@rvcmacau.com
www.facebook.com/rvcmacau
www.royalveterinarycenter.com