

# Falling orders take toll on China's exporters

GUANGZHOU

Scarcity of foreign buyers along with rising wages signals danger ahead

BY KEITH BRADSHER

The green, blue and brown picnic backpacks displayed by Xiamen Tawa Enterprise at the Canton Fair in recent days were ingeniously designed, with special pockets for thermoses, silverware and matching cloth napkins.

But what the company does not have is many customers. Several staff members sat around the company's booth Friday, the last full day of the fair, and complained about how their exports to Europe and the United States had dropped 20 percent in the past year and were likely to stay weak after few orders materialized at the fair.

"Over all, there are just fewer people coming by the booth," said Randell Liu, Xiamen Tawa's senior sales executive.

Over the weekend, the Canton Fair, China's main marketplace for exporters and buyers, announced an unexpected decline in contracts signed in the past month at the fair's spring session. The weak result was the latest sign that exporters across China were struggling to maintain their international competitiveness.

Falling export orders are a warning sign for the Chinese economy because they coincide with steeply rising wages and higher rents for factory space, pushing many export factories to the brink of insolvency.

Difficulties in the export sector also coincide with broader weakness in the Chinese economy since last winter, although there were hints of a slight recovery in March. The government has deliberately popped the country's real estate bubble during the past year, pushing apartment prices down sharply in an effort to improve the affordability of housing.

The decline in orders at the Canton Fair nonetheless caught traders and investors by surprise. China's central bank pushed down the value of the renminbi against the dollar by 0.22 percent in setting the daily trading band on Monday morning for the Shanghai currency market, the largest one-day move in the renminbi since March 12.

"What we're seeing here is a continued loss of competitiveness," in combination with clear weakness in demand from export markets, particularly Europe, said Frederic Neumann, the co-head of Asian economic research at HSBC.

China is scheduled to release its April trade data Thursday. Taiwan announced Monday that its exports had fallen 6.4 percent in April compared with a year earlier, more than double the decline of 3.1 percent that economists had been expecting.

Assessing the relative importance of China's eroding long-term competitiveness and the short-term weakness of export markets is the subject of considerable disagreement among economists.

Chinese officials have argued that rising costs and a strengthening renminbi have essentially permanently narrowed China's trade surplus.

In the United States, the administration of President Barack Obama and many members of Congress have been



Taking a break on a bench overlooking the exhibition hall in Guangzhou. The Canton Fair has been a major opportunity for Chinese manufacturers to sign contracts with foreign buyers.

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skeptical, suggesting that weak demand from other countries has only temporarily blunted the long-term rise in China's share of foreign markets.

The Canton Fair reported over the weekend that contracts at its spring session totaled \$36.03 billion, a drop of 2.3 percent in dollar terms from the spring session of last year and a decline of 4.8 percent from the session last autumn.

Xinhua, the state-run news agency, said it was the first year-over-year decline in Canton Fair contracts in dollar terms since the spring of 2009, at the bottom of the global economic downturn.

Chinese exporters have to pay their workers and their rent in renminbi, not dollars. The slide in orders at the Canton Fair has been even steeper in renminbi terms, as the Chinese currency has appreciated 3.4 percent in the past year against the dollar.

This has made the decline in the volume of dollar-denominated export contracts at the Canton Fair even more painful for Chinese companies.

Weak orders at the Canton Fair contrast with a few signs of health in the export sector. The government's purchasing managers' index for export orders has been above 50, which signals increasing orders, since February.

A similar index of export orders from HSBC, which captures more of the ac-



Representatives of camping equipment manufacturers at the fair. With fewer buyers at the event this year, Chinese companies said there was little chance their orders would pick up.

tivity of small and medium-size companies, moved above 50 last month. The Canton Fair tends to have a particularly heavy representation of small and medium-size exporters, which are being squeezed the most by rising labor costs because they have generally invested less in automation.

A nationwide shift is also taking place

toward higher-technology industries like electronics manufacturing, an industry in which the fair has somewhat fewer exhibitors.

Stanley Lau, the deputy chairman of the Hong Kong Federation of Industries, a trade group whose members employ 10 million mainland Chinese workers, said the number of factories in

export-oriented areas of southeastern China was steadily declining as costs rose.

"China will still be the world's center of factories, but it will not be the cheapest," he said.

Not all exporters are ailing, however. Vendors of luxury goods appear to be faring better, as affluent households have resumed spending.

Hongyuan Furniture Manufacturing, a 200-employee company based in Guangzhou that makes \$1,500 to \$4,000 home saunas that use infrared light instead of hot rocks to warm people inside, had customers stopping by Friday at its booth a couple of halls away from Xiamen Tawa.

"Even though the economy is down quite a lot, our sales are quite stable," with renewed strength emerging, particularly in the American market, said Rachel Wang, the company's sales manager. "From our customers, we hear the economy is picking up — it's good news."

But Mr. Liu was more pessimistic, and he noted that Xiamen Tawa remained worried about the possibility of further pressure on margins if the Chinese currency climbed further. In negotiating long-term supply contracts, he said, "we quote a little bit higher prices to protect ourselves against renminbi appreciation."