

**THE IMPACT OF THE GLOBAL ECONOMIC SLOWDOWN ON VALUE CHAIN  
LABOR MARKETS IN CHINA  
(DRAFT REPORT)**

**XIULAN ZHANG**

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# I. The Impact of the Global Economic Slowdown on the Economy and Labor Market

This study was conducted in Wenzhen of Zhejiang province and Shenzhen of Guangzhou province in August 2009.

## 1.1 The Impact on Urban Economy

The impact of the global economic slowdown was first felt by the export-oriented economics, such as imports and exports, foreign direct investment (FDI), etc. The slowdown of the exports since September 2009 has direct impact on the labor market and the employment, particularly the employment of the migrant workers.

### 1.1.1 The Impact of the Financial Crisis on the Economy of Shenzhen City

Since September 2008, the monthly exports declined significantly. The total export value in September 2009 was 17.374 billion US Dollars; and the total export value was 15.964 billion, an 8.1% decline. The annual export value in 2008 reached 179.744 billion, a net increase of 6.6% comparing with 2007 (Figure 1-1).

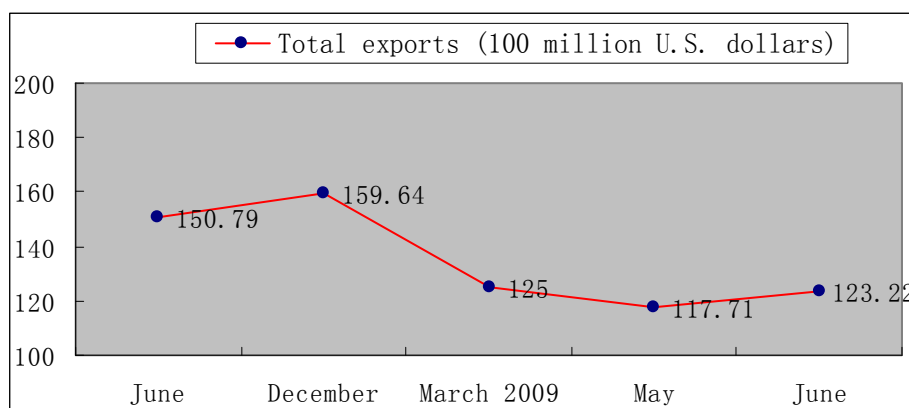


Figure 1-1 Changes in Gross Export Value of Shenzhen City

However, since January 2009, the total export value has a negative growth comparing with the same period of 2008. The first quarter total export value was 32.208 billion, a change of -15.3% comparing with the first quarter of 2008. The total export value from January to May 2009 was 56.57 billion, a negative change of -15.2% comparing with January to May 2008. The decline of the foreign demands of Shenzhen's products have resulted the sharp decrease of Shenzhen's exports.

Table 1-1 FDI of Shenzhen City, 2009

Indicators	Units	July	Jan-July	% Changes with Jan-July
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	2008			
New Contracts Signed	Contracts	134	808	-65.2
Total Value of the New Contracts	10,000 USD	21,107	198,392	-57.6
Actually Used FDI	10,000 USD	34,219	215,059	0.7

Table 1-1 presents the 2009 foreign direct investment. The new contracts signed from January to July was 808, a -65.2% change comparing with the same period of 2008. The total value of the FDI contracts was 198.398 million USD, a -57.6% decrease comparing with the same period of 2008. The actual FDI being used increased slightly, a 0.7% increase comparing with the same period of 2008.

The decline in imports and exports in Shenzhen has direct impact on the economy of Shenzhen city. In 2006, Shenzhen city’s GDP was 568.439 billion Yuan, a net increase of 15% from 2005. The 2007 GDP growth was 14.7%, and the 2008 GDP growth was 12.1%, however, the first half of the 2009 GDP growth was only 8.5%, only 2/3 of the 2008 GDP growth rates.

### 1.1.2 The Impact of the Financial Crisis on the Economy of Wenzhou City

The industrial structure of Wenzhou differs from Shenzhen. In terms of the main export products, Wenzhou exports more shoes, cloth, and Shenzhen exports more electronics. Although Wenzhou feels the impact of the global economic slowdown, but the impact is smaller than Shenzhen.

Figure 1-2 presents the monthly exports in Wenzhen (January 2008 to January 2009). The impact is not very significantly. The highest monthly export in Wenzhen was 125.428 million UDS in July 2008, and the lowest export was in March 2008, the total value of export was 65.646 million USD. Since the second half of 2008, November’s export was lowest, a total of 81.258 million USD. Figure 1-2 indicates that the while Shenzhou’s total exports are affected by the global economic downturn, the impact is much contained.

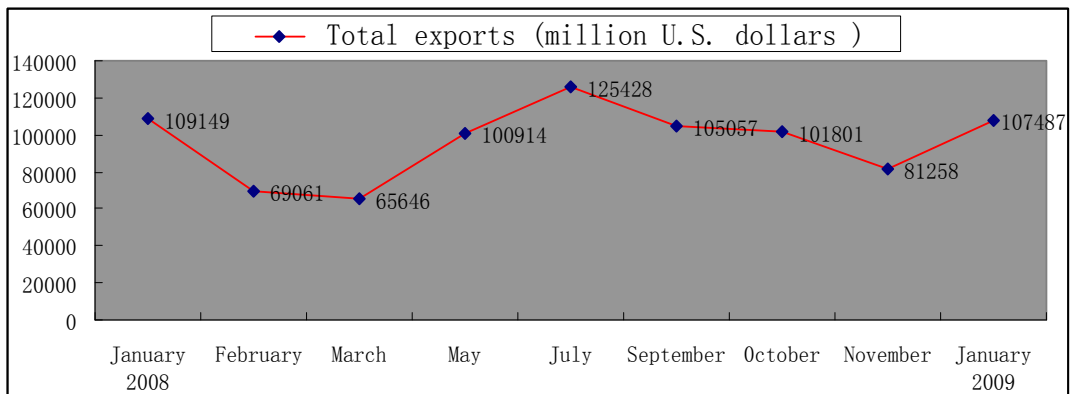


Figure1—2 Total Exports of Whenzhou City, January 2008 to January 2009.

The impact of the global economic downturn has differential effects on Wenzhou and Shenzhen. Wenzhou’s lowest total exports occurred in November 2008, and then it began to

rebound, however, Shenzhen’s total exports started to change in September 2008 and it continued the trend of the negative growth until the second quarter of 2009 (the time period we could obtain the data).

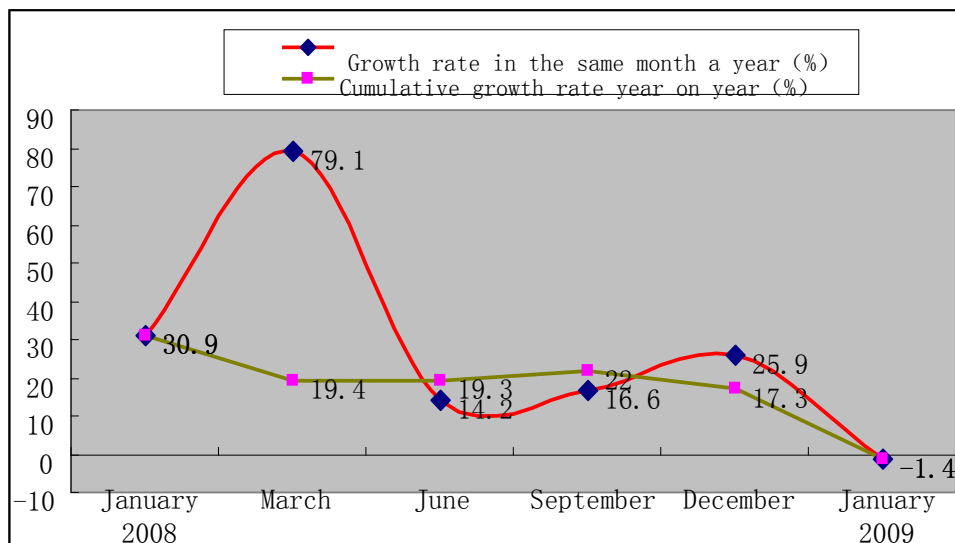


Figure 1-3 The Total Exports Change Rates in Wenzhou, January 2008 to January 2009.

If we look into the monthly total exports, the impact of the global economic slowdown is not very significantly, however, comparing with the same period of 2008; the impact is very significant (Figure 1-3).

The Wenzhou monthly exports have maintained a stable growth rate in 2008, and the average growth rate for the same period with the previous year was 20%. However, the rate of change has declined and even a negative growth rate of -1.4% from December 2009 to January 2009. The same period in January 2008, the total export grew at the rate of 30.9%.

This is confirmed with the interviews with the officials in Wenzhou Employment Management Bureau. The director told the team that “the biggest impact of this financial crisis was felt in January and February 2009, and the labor market was in confusion. Middle sized and small business got hit hard. However, starting the second quarter, we saw a positive sign of the business rebound, which is reflected in the indicators, such as total employments, and new openings of the business.”

Table 1—2 FDI of Wenzhou City

Indicators Comparing with the Same Period of Previous Year (%)	Feb 2008	Apr 2008	Jun 2008	Dec 2008	Jan 2008
New Contracts Signed	-66.7	-32.1	-29.6	-51.1	
Total Value of the New Contracts	-54.1	17.1	-48.8	-56.2	-62.7
Actually Used FDI	-52.9	-51.8	-54.1	-57.6	-81.9

Table 1-2 presents the FDI change in Wenzhou. Comparing with 2007, Wenzhen has already

shown strong declines in new contracts signed, total value of the new contracts, and the total FDI materialized. The decline is even deeper since the global economic slowdown.

Figure 1-4 shows the GDP growth in Wenzhou in the past 9 years. The average GDP grew at a rate of 13.4% from 2000 to 2007, and it was only 8.5% in 2008. This is similar to Shenzhen city, that the global economic slowdown has a big impact on the GDP growth in Wenzhou.

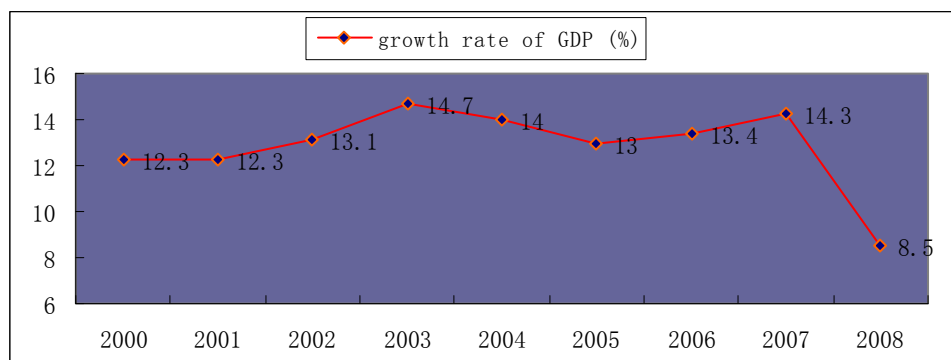


Figure 1—4 Wenzhou GDP Growth Rate, 2000-2008

## 1.2 The Impact of the Financial Crisis on the Labor Market

Both Shenzhen and Wenzhou have many migrant workers working in the export-oriented business and enterprises, the impact of the global economic slowdown can be seen from the changes of the migrant workers.

### 1.2.1 The Supply of Labor Forces in Shenzhen City

Table 1-3 Monthly Labor Force Demand and Supply of Shenzhen City

Period	Job Vacancies	Job Applicants	Ratio
Jan-Jun 2008	3,444,250	2,269,311	1.52
Nov 2008	----	----	0.81
Dec 2008	-----	-----	0.81
Jan 2009	146,672	186,009	0.79
Feb 2009	847,286	863,653	0.98
Mar 2009	612,450	646,180	0.95
Apr 2009	593,445	570,148	1.04
May 2009	571,505	503,393	1.13
Jun 2009	529,088	462,124	1.14

In the first half of 2008, the total job vacancies were 3.444 millions, and the total applicants were 2.269 million, the demand and supply ratio was 1.52, indicating for one applicant, there were 1.52 jobs available. The labor force demand was very strong, and it was easy to find a job before the global financial crisis hit Wenzhou. Starting the second half of 2008, the labor force demand decreased, and it was much harder to find a job. The demand-supply ratio of jobs was 0.81 in November and December 2008. Before April 2009, the ratio was all lower

than one, indicating more applicants and fewer jobs available. However, starting April, although the labor force demand is still has a downturn trends, the applicants are also decreasing, and the demand-supply ratio of jobs became greater than one. This indicates that it is relatively easy to find a job because fewer applicants for jobs. The pressure on employment is lessened mainly due to the fact that many rural migrants went back to their hometown or went to other cities to seek job opportunities.

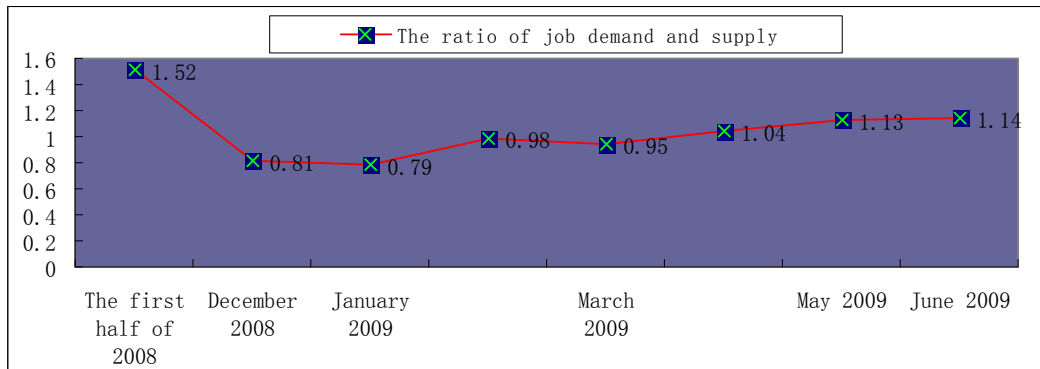


Figure 1—5 Shenzhen Monthly Labor Market Demand and Supply

### 1.2.2 The Supply of Labor Forces in Wenzhou City

In June 2008, Wenzhou had 3.9 million migrants seeking jobs and by December 2008, the total migrants decreased to 3.6 million, a 9.23% drop. This is partially due to the fact that many migrants returned to their hometown for the Chinese Spring Festival Holidays.

We have learned from the interviews with the government officials in Wenzhou that the global financial crisis started to hit Wenzhou in January 2009. We gathered the labor market demand and supply information in three main districts (Table 1-4).

The first quarter of 2009, the rate of vacancy and applicant was 2, which means one applicant had two vacancies. However, this rate dropped to 1.1 in the first half of 2009, indicating a much tough job market. The total demand of labors in the first half of 2008 was 360,000 jobs available, and in 2009, the total jobs available reduced to 310000, a 14% drop.

Table 1-4 Changes of Labor Market in Lucheng, Ouhai and Longwai Districts of Wenzhou City

Time Period	Vacancies (10, 000)	Applicants (10,000)	Ration of Vacancies and Applicants
First Quarter, 2008	19.9	9.3	2.1
Second Quarter, 2008	16.1	8.5	1.9
First Quarter, 2009	15.6	19	0.8
Second Quarter, 2009	15.6	12.2	1.3
Jan-July 2009	37.3	34.5	1.1

Comparing the two cities, we found that the impact of the global financial crisis started early

in Shenzhen and there was a time lag for Wenzhou to feel the impact. Shenzhen started to feel the impact in June reflecting in the decreased exports and employments. Wenzhou felt the impact in the end of 2008 and the beginning of 2009.

### **1.3 Changing Policy Environment and the Effectiveness of the Macro-economic Policy to cope with the Global Economic Downturn**

#### 1.3.1 Changing Policy Environment during the Global Economic Downturn

The Central government of China has responded promptly to global financial crisis and the economic slowdown by adopting a proactive fiscal policy and by loosening monetary policy. The government recognized the expansion of the domestic market would help counter the impact of the shrinking foreign markets. The policy bundle includes:

##### ***Proactive Fiscal Policy***

This package includes massive government spending expansion, and tax reduction to certain business, eliminate or low fees to some projects, and increase the fiscal subsidies and transfers.

The key policies are: (1) A stimulus package estimated at 4 trillion yuan (about 570 billion U.S. dollars) will be spent over the next two years to finance programs in 10 major areas, such as low-income housing, rural infrastructure, water, electricity, transportation, the environment, technological innovation and rebuilding from several disasters, most notably the May 12 earthquake. (2) A comprehensive reform in value-added taxes. (3) Increase of export tax rebate rates to more than 8000 export products. The export rebate rates increased six times from August 2008 to June 2009; and (4) Subsidies and transfers such as providing subsidies for the rural residents to purchase household electric appliances, and expanding social security spendings.

##### ***Flexible Monetary Policy***

The package includes: (1) lower interest rates, and increase and abolish the commercial banks' credit ceilings will be abolished to channel more lending to priority projects, rural areas, smaller enterprises, technical innovation and industrial rationalization through mergers and acquisitions. (2) Increase the lending to the middle sized and small businesses.

#### 1.3.2 The Countermeasures of the Local Governments

Except the stimulus from the Central Government, many local governments also issued policies to support the local business to face the challenges of the global financial crisis.

##### ***Policies Issued by Shenzhen City***

Shenzhen government's policies have focused on promoting industrial upgrading and

structural optimization. It issued the regulation “Measures to Promote Industrial Development” in January 2009, which includes:

- ✧ Investing in the missing links of the value chain. Projects will be supported and application procedures will be simplified. For example, to expand the logistics business, Shenzhen issued specific regulations to speed up the development of the modern logistics business sector.
- ✧ Encourage social groups, such as industrial associations and business chambers to help the process of industrial upgrading.
- ✧ Strengthen the capacity of R and D, and the capacity of branding and core production technologies.
- ✧ Put a control on the processing supplied material business.
- ✧ Establish “Small Business Credit Guarantee Center” to help the small business obtaining loans.
- ✧ Improve the investment environment such regulating the service fees, etc.
- ✧ Provide special funds to encourage high tech business, new energy projects, etc.
- ✧ 3.2.2 Policies Issued by Wenzhou City

Comparing with the policies issued by Shenzhen, Wenzhou City focused more on short term measures:

- ✧ Policies to lower the costs of the local business, such as delayed premier payment of the social insurance, and supports to job trainings. However, because the majority of the Wenzhou businesses are privately owned and small sized, many of them did not purchase social insurance for their employers, and these policies have very limited effect. This is confirmed by the field visits and interviews.
- ✧ In June 2009, Wenzhou city issued policy to encourage local business to reorganization and recombination by purchasing, merging, forming partnership, uniting of different sized forms, value chain expansion, and branding coalition etc. It was aimed to increase the competitiveness of the local businesses. However, the effectiveness of these measures remains to be seen because in the same month, the government issued another policy to encourage the local business to keep the contracts locally instead of out-sourcing. Wenzhou government tried to balance the industrial upgrading and at the same time, to maintain the local jobs.

### 1.3.3 The Effectiveness of the Government Policies

***The Macro-economic policy adjustments have provided a more flexible and favorable environment for the enterprises***

It was believed that the new Labor Law has increased the costs of labor, and made the enterprises more difficult to make profit during the global financial crisis. To promote employment, and ensure that the enterprises not to fire or lay off workers, the local governments have issued a series of favorable policies to the enterprises, such as loosened requirement for the labor insurance coverage and salaries, and less requirement for abiding

the Labor Law.

Many employees told the study team that the flexible policies are important for the small business to survive the crisis and grow, because most of the small businesses have been excluded from the government favorable policies in the past. However, during this financial crisis, the government has paid attention to the small business. Many firms have benefited from the loosened and favorable policies including the fiscal and monetary policies, not the government direct subsidies and interventions. Table 1-5 shows that during the financial crisis, 55.56% of the firms faced the shortage of cash flow, and 88.24% of them were able to obtain loans.

Table 1-5 Cash Flow Challenges

Difficulty in Cash Flow?	N	%
No	7	38.89
Yes	10	55.56
Not Applicable	1	5.56
Total	18	100

Table 1-6 Difficulty in Obtaining Loans

Any Difficulties in Obtaining Loans	N	%
No	15	88.24
Yes	1	5.88
Not Applicable	1	5.88
Total	17	100

For example, Wenzhou has issued policies to lower the social insurance expenses of the enterprises by lowering the premier rates, providing tax Exemption and Reduction, and increasing spending to the poor in the form of job training and housing support. During this period, the government has adopted a policy of “no complaints, no inspection and prosecution” for the compliances of the Labor Law.

***Low Level of Dissemination of the Policy Has Lower the Benefit Levels of the Government Policies***

Table 1-7 Level of Understanding of the Government Policies

Understanding of the Policies	N	%
Understand	4	7.27
Do not Know the Policy At All	19	34.55
Heard but not Clear	32	58.18
Total	55	100

Nearly 60% of the firms have not much understanding of the policies, and more than one third of the firms do not know at all about the government policies, and only 7.27% of the

firms understand the policies that the government issues during this global economic slowdown.

Table 1-8 Benefit from the Government Policies

When the Firms Have Benefited from the Policies	N	%
No	40	72.73
Yes	15	27.27
Total	55	100

Over 72% of the firms have not benefited from the government policies, and for the 27% of the firms benefited from the policies, they feel the loans, the preferable tax policy, and the delay of social insurance premiums are the most important ones. Many employees told the study team that they want more flexible business environment and less interference from the government, instead of these policies.

Table 1-9 Barriers to the Enterprises Benefiting from the Policies

Barriers Mentioned	N	%
Have Limited Information on the Policies	28	50.91
Difficult to Qualify to the Policy Support	7	12.73
Procedure is too Complicated	9	16.36
The Policies do not Target the Problems	9	16.36
Other	2	3.64
Total	55	100

Table 1-9 shows that over half of the businesses do not know the policies well, or the policies are not made to target the real problems, or the procedures are too complicated and they do not bother to apply for the support; or the criterion is too strict for many firms to qualify.

#### **1.4 The Limited Role of the Local Industrial Associations during the Global Economic Downturn**

The industrial associations are the legal representative organizations for the local business and enterprises and they are, by legal binding, performing two functions: bridging the business with the government, and coordinating the relationships among the businesses and enterprises; and serving the businesses and enterprises by providing assistance when needed, and by providing consultation, professional trainings, and disseminating the government policies.

During the field visits, we found that the industrial associations have been active in helping both the governments and the local businesses, but problems exist too.

#### 1.4.1 Industrial Associations have their Advantages during the Global Economic Slowdown

We interviewed with the industrial associations and found some of them have done a good job in helping the businesses and the enterprises. For example, Shenzhen City Social Group Association, which is the association with many types of social groups, including the industrial associations and business chambers, started a new project in January 2009 by uniting the City Financing Office, City Bank Supervision Bureau, City Private Business Management Bureau and many banks to provide “mutual finances”. This project has helped the small business significantly in getting the necessary finance to remain in the business. The core idea of the project is that the industrial associations and business chambers will provide the guarantees for the business in applying loans. There will be no mortgage requirement for the business to obtain loans, and the business can apply for emergency loans. Because the lessened requirement for loans, many businesses such as high tech firms, logistics, electronics, and garment enterprises and other types of business have benefited from this project, and the total loans obtained by the businesses reached 3.84 billion Yuan in six months for the 15 types of business under this project.

Wenzhou Garment Industrial Association has started to help the Wenzhou garment business upgrading by restructuring the garment industry. It is led by the big firms and started integrating the production and marketing processes. The firms formed coalitions and supply chains, and helped the business to target the domestic markets more effectively and efficiently.

Although the industrial associations and the business chambers in Wenzhou and Shenzhen have done differently but the key lessons are, based on our interviews that the entrepreneurs of the big forms have started to act and pushed the industrial associations business chambers to function their roles. The big bosses know the real demand and the challenges, and they believe that the importance of collaboration and good division of labors in this competitive business environment. While Wenzhou has more private owned business, and the local business leaders are influential, Shenzhen has more joint ventures, and they can rely less on the local business leaders. However, they identified the key problem of financing for the small business and found innovative approaches to solve this problem.

#### 1.4.2 The Role of the Local Industrial Associations is Constrained by their Management Structure

During the interviews, we have found that the linkage between the local governments and the enterprises is very limited and loose, and most of the enterprises do not want to be nagged by the governments. What they want is to “have a loose and comfortable environment to do business, but not be interfered by the governments.” Interesting, both Shenzhen and Wenzhou officials expressed the same view and indicating that the Industrial Associations and Business Chambers should play a key role because they have close ties with the business and enterprises, and “the government has very limited resource and is inexperienced in supervising business. The fact is that the government does not know the business details, and it is the industrial associations’ role in helping the business and enterprises out during this

crisis.”

How to make the local industrial associations really functioning well? We interviewed with a local electronics firm which actually is recommended by the local officials. The CEO of the firm told us his reading of the role of the local industrial association: “we paid 1500 Yuan membership fees, and it is sort like a registration fee. The only hope is that the local government leaves us alone, and we do not welcome the visits of the local governments because it is burdensome for us to receive the visits, and oftentimes their visits have no direct relationship with our business operation.” Ironically this firm was recommended by the local government, and it is a upper middle-sized firm in that city.

Then the questions are asked: what is the mechanism for the local business to voice their concerns and seek help if the local industrial associations are only existed by names, and the local governments have no specialty to help the business?

While the local business and enterprises do not want to be meddled by the governments, however, they do have many issues that need the support from the local governments. For example, the interviewees said the local government should design policies in keeping the migrant workers, provide better environment for the business development, build infrastructures and provide services to the business and the employees. When we interviewed toy firms in Qiaoxia Town in Wenzhou city, the interviewees said that the “transportation is very inconvenient, the infrastructures need improvement, the service sector is underdeveloped, and it is very hard for us to keep the employees here.”

It is important to build a “bridge” between the local governments and local business and the role of the local industrial associations becomes crucial, especially during this financial crisis. However, to make the local industrial associations perform a bigger role, it is important that the industrial associations to form good relationships with the governments and with the enterprises in helping the local business. The local government will have the incentive to work with the industrial associations if it sees their potentials in helping out the local business, however, the business chambers need to work closely with the local enterprises and to better represent the interests of the local business. However, the challenge for the business chambers is in forging partnerships with the local enterprises. During the interviews, the enterprises kept saying that the local business chambers have very limited role to play and they have to rely on themselves to cope with the economic downturn and to come up with good strategies to survive and to grow. The limited role that the business chambers in this economic downturn is largely due to the fact that the management arrangement of the business chambers. The members of the business chambers are not from the top business managers and entrepreneurs, the internal management is confusing and ineffective, and very few entrepreneurs are in the chambers. Most of the leaders of the chambers are not elected by the entrepreneurs. It is important to restructure the local business chambers to make them more effectiveness in helping the local enterprises and business, especially during this global economic downturn.

## II. The Impact of the Global Economic Slowdown on the Enterprises and Their Coping Mechanisms

### 2.1 The Impacts on the Enterprises

#### 2.1.1 Increased Deficits

Table 2-1 shows that in Wenzhou, the total enterprises with deficits were 249 and the total deficits were 378 million yuan. By 2008, the total enterprises with deficits were 481, and the total deficits reached 1.419 billion yuan. Among the 55 enterprises we interviewed, 60% of them had income level reduced starting the second quarter of 2008, 16.36% made more income, and 23.64% have no change in income levels (Table 2-2).

Table 2—1 Profit Loss of Enterprises in Wenzhou in 2007 and 2008

Year	Number of Enterprises with Profit Loss	Amount of Profit Loss (hundred million)
2007	249	3.78
2008	481	14.19

Source: Wenzhou Bureau of Employment Service & Management.

Table 2—2 Income Change for Enterprises Since the 2<sup>nd</sup> Quarter of 2008

Income Change	Number of Enterprises	Percentage (%)
No change	13	23.64
Increase	9	16.36
Decrease	33	60
Total	55	100

53.7% of the interviewed enterprises have experienced a decrease in orders and 24.07% of them have an increase in orders. It should be noted that enterprises targeting domestic markets have lost a bigger share of domestic market than the export-oriented enterprises. For example, 37.5% of the export-oriented enterprises have experience a gain in domestic orders during the financial crisis. In fact, expanding domestic market is a strategy used by export-oriented enterprises to deal with the loss of the orders from overseas. Table 2-4 shows that 78.79% of the 33 enterprises with deficits are actively exploring new markets and looking for new customers.

Table 2—3 Domestic Orders Gained by Enterprises Since the 2<sup>nd</sup> Quarter of 2008

Change in domestic orders among enterprises	Number of Enterprises	Percentage (%)
No change	12	22.22

Increase	13	24.07
Decrease	29	53.7
Total	54	100

Table 2—4 Development of New Markets for Enterprises

Develop new markets and new customers	Number of Enterprises	Percentage (%)
No	7	21.21
Yes	26	78.79
Total	33	100

Interview with Xingda Human Resources Company in Shenzhen (August, 2009)

This company has more than 570 customers and 35% share of its capital comes from overseas. Badly affected by the financial crisis since October 2008, the company has experienced a decrease in orders and number of enterprises and consequently a loss of jobs. As a response to the government's requirement of "no job cuts and no reduction of salary", some enterprises started to take cost-reducing measures such as mandatory training and unpaid leave for employees. Since spring 2009, some enterprises have gained an increase in domestic market, but production in most export-oriented enterprises was in stagnation. After June 2009, the production of the enterprises started to resume and the need for labor increased. The enterprises remain cautious about recruitment because they are not clear about how long the negative impacts of the financial crisis will last.

A majority of enterprises are optimistic about future situation. More than 74% of them expected an increase in the production demand in the next six months, and only 7.41% expected a decrease in demand. Things are very similar among enterprises fallen into a difficult situation. Most of them expected that the most difficult time has gone, the market has started to be back to normal, and the development of enterprises will accelerate.

Table 2—5 Predicted Product Needs for Enterprises in the Six Months Ahead

Product needs in the 6 months ahead	Number of Enterprises	Percentage (%)
No change	10	18.52
Increase	40	74.07
Decrease	4	7.41
Total	54	100

### 2.1.2 The Impact is Bigger for Export-Oriented Enterprises

As a result of the financial crisis, international economic environments have become worse and foreign needs for goods made in China have been reduced drastically. In spite of the policy measures taken by the government to stipulate domestic needs, those export-oriented enterprises have been affected greatly.

On the other hand, the drastic change of foreign exchange rate has made the situation of export-oriented enterprises even worse. The change of foreign exchange rate has direct influence upon the relative competitiveness of the products of related countries. This is to say, if the currency value of one country rises, the price of its products will also rise and the competitiveness of its products will fall down relatively.

To deal with the change of foreign exchange rate, the enterprises shall step up their productivity and improve their management level, and the government shall provide various supports. Most of the export-oriented enterprises live on cheap prices, and this kind of reliance will last for quite a long time. It is found in this survey that the commercial association for electronic products in Shenzhen has taken supportive measures to deal with the issue of foreign exchange rate. Since the 2<sup>nd</sup> half of 2008, they have coordinated those domestic exporting products to the Southeast Asian countries with overseas customers, and suggested to use Chinese currency as the accounting tool as a way to minimize the negative influence of exchange rate. The use was confined to a narrow sphere, but it's worth trying.

### 2.1.3 The Impact is Bigger for Small Business

General speaking, large enterprises can undergo the crisis safely, because they usually have good names and have stable trading partners. But the impact of the crisis on small businesses is much greater. Taking those electronic information enterprises in Shenzhen and Wenzhou for example, those small ones are less developed, their products are of low-tech, and usually they have only tens of technicians while the other workers are temporarily employed. The survey shows that about 30% to 50% of those low-tech manufacturing small businesses have been closed down in Shenzhen. However, it will be easier to support those small businesses to survive the crisis because they are small in size and flexible in space and activities.

### 2.1.4 Middle-Sized and Less Flexible Enterprises were hurt by the Financial Crisis Significantly

Middle-sized enterprises are in need of the government's support the most because they have significant scale and technical level and absorb a large amount of labor forces of the society, thus their collapse will have important impacts on the society. This kind of enterprises mainly relies on the allocation of orders for good by their superior big enterprises. Usually they have no trade marks and no research and development capability. Once the need for goods by their superior big enterprises falls down, they will get less allocation of orders, and this will have disastrous impact on them. Therefore, those middle-sized enterprises suffer to a greater extent from the financial crisis.

## 2.2 Financial Crisis and Industrial Transformation

The current financial crisis provides a new chance for industrial transformation such that superior ones prosper and inferior ones be eliminated, market share be redistributed, and production chains be optimized. Some owners thought that "the close-down of some of the

enterprises are not completely a result of the financial crisis. Rather, things were running wrong among these enterprises prior to the crisis”.

The relatively more sufficient supply of regular workers over the financial crisis has indirectly lowered the cost of enterprises. For example, during financial crisis, an electronics company in Shenzhen expanded its scale of employment by lowering the cost of labor. By expanding its regular employees, they no longer need overtime workers leading to the reduction of labor costs. The owner of the enterprise thought that the measure they taken is beneficial to the development of the enterprise and also contribute to the society.

Therefore, the financial crisis provides an opportunity for industrial transformation, and the optimization and upgrading of industries. Because of the great potential needs of the domestic market, domestic enterprises are more advantaged compared to European and American enterprises. During the crisis, domestic enterprises should develop their own products and brands by take full advantage of the domestic market, set a steady foot in domestic market first and gradually explore the international market.

2.2.1 Strong market competition shuffles the industries. Bankruptcy of weak small enterprises would yield market shares to medium and large enterprises, which is good for medium and large enterprises to grow.

In Shenzhen city, during an interview, the owner of ShenZhen Yitao Intelligent Control Co., Ltd. said: “The onset of financial crisis has made many enterprises who are seeking stability turn to more reliable providers (to ensure supply). They trust more on companies with good strength. Therefore more medium and small companies went bankruptcy.” For example, Aigo company, because of he crisis, two former manufactures had problems. So Aigo have chosen Yitao. In other words, Yitao got this order because of the crisis.

Enterprise interviews and surveys show that there are actually a certain number of medium and small companies went bankruptcy because of the financial crisis. An company’s chief manager revealed that in Dongguan, about 60% of the export oriented toy manufacturers closed business in the second half of 2008. For those survived companies, there is no question that these companies have very good strength and good reputation. The case has also proved the theory that during the financial crisis, the market and industries are optimized.

2.2.2 There is obvious trend for the human resource consolidation; -elite professionals are flowing toward high quality enterprises.

Shante Electronic Co., Ltd. is a cell phone research and design company. As a high profile electronics (cell phone?) company, its sale of end products would inevitably be affected. During the research and development of new functionalities and new models for necessary needs of daily life, the company experienced reducing salary and laying off people. But during this period, more talented professionals were found, reserved and promoted, and in the same time, incompetent employees phased out. In addition, during the crisis, powerful and prestigious companies can

recruit high quality professionals without high cost. This is an important fact of the reconsolidation among research and development industries.

During interviews, many people mentioned words of “industrial shuffle” and “market optimization.” We can see that having gone through the difficulties in the second half of 2008, the survived companies and their owners are positive about the hope on future. The second case has again illustrated and proved the above conclusion from the human resource consolidation point of view. Following the pace of Shenzhen’s industrial restructuring, export oriented manufacturing companies are moving to places such as Dongguan, while high-tech and new-tech companies are concentrating in Shenzhen. High-tech/new-tech professionals and research and development teams became the key for company’s development and grow. Hiring in this time will not only save recruiting cost, but also make it quick and selective. This has built good foundation for company’s future.

### 2.2.3 Companies have increased new product updating speed, they have stronger feelings about building their own brands

During the crisis, the high performance of companies with independent brands and advanced technologies has brought great impact and inspiration. Many companies have realized the importance of innovation. Generally, they are more conscious about building their own brands.

As an example, Zhejiang Difeng Dress Co., Ltd. is an OEM garment factory for many premium brands. The ratio of domestic and international business is 9: 1. Although there was no serious hurt from the crisis, the company still adjusted strategy: adjust the sale structure, the sub company in Shanghai will mainly in charge of garment marketing; increase export business, reduce the dependence on domestic market; branding and marketing, including promoting the independent brand of DIDIBOY, being agent of international brand, and direct importing.

OEM product sale takes the advantage of low labor cost to make profit. It was once the first money source for the development and growth of many companies in Wenzhou. The financial crisis has certain impact on OEM business and caused shrinkage of orders. Worsened by rising of labor cost and material cost in recent years, the companies in Wenzhou have started to find countermeasure. For example, pay attention to domestic market, and push domestic independent brand to compensate the shrinkage of international orders is a method. In the third case, Zhejiang Difeng Dress Co., Ltd has put the strategy of pushing their own brand of DIDIBOY on the agenda and make it one of three major objectives in their strategy.

### 2.2.4 Company partnership becomes tighter, industrial concentration goes further

Wenzhou’s garment industry can be an example for studying industrial upgrade. Currently there are over 2000 garment companies in Wenzhou, and their annual value of production is 12 billion Yuan (RMB). It is the third pillar industry of Wenzhou. Compared with garment industries in other places, Wenzhou has certain advantages, especially for premium

mans'wear products. The garment industry grew fast in the 1990s, and in 2000, the garment industry reached "bottle neck". The reasons are: (1). Manufacturing cost rose, including land and labor cost. (2). Market changed. The main products are mans'wear of western-style clothes. As the time passes, this part of the market shrank, and the work uniforms became mainstream product. Therefore the western-style clothe business became OEM business gradually. (3). The biggest problem is that more than 80% of the whole garment industry is mainly manufacturing and processing. This is at the lowest end of the industrial chain, which makes the least profit. The companies are struggling. Facing the financial crisis, Wenzhou's textile industry focused on industrial transformation and improvement, which is that the companies move to trading and shopping center businesses from the lowest end of manufacturing and processing business. The entire industry has been consolidated and restructured. Lead by the large enterprises, avoid the old repeated reorganization and reconsolidate the sale channels, move from the secondary industry to the tertiary industry. With good and smooth sale channels, the factory orders would increase. In this consolidation, the relationships between enterprises are not share-holding, but they are members of an alliance and an supply chain, and this will promote the formation of manufacture and sale alliance.

## 2.3 The Coping Mechanism of the Enterprises

### 2.3.1 Promoting and expanding the Domestic Market

Among the 55 surveyed companies, only 9 companies have increased incomes, of which, 4 are export type, 5 are domestic type. There are 13 companies which have increased domestic orders. Table 2-6 shows that among that 13 companies, during the crisis, 9 companies still have increased value of production. A common characteristic for those which have increased production value is, no matter export or domestic oriented, they are doing good in domestic market and the domestic orders are increasing. Therefore, the domestic orders are the key for these companies to have increased income. The domestic market directly affects the health of companies.

Table 2-6 Income change with increased domestic orders

Company's income change	Number of companies	Proportion (%)
No change	3	23.08
Increased	9	69.23
Decreased	1	7.69
Total	13	100

### 2.3.2 Control the Size of Employment

Since we are studying the coping strategies for the troubled businesses, first we need to define the "troubled business". It should meet two criterions: (1) Since the second quarter of 2008, the business income decreased. (2) The business reduced its employment. The data shows that among the 55 surveyed businesses 18 of them meet the criterions.

Table 2-7 revealed that 40% of the surveyed samples have decreased employment; 23.64% of

them have no change; and 36.36% of them have increased employment. During the crisis, a large portion of businesses have reduced employment, and for those which have reduced employment, their operating income also decreased.

Table 2-7 Employment change between the end of second quarter of 2008 and the end of second quarter of 2009

Change of employment	Number of businesses	Proportion (%)
No change	13	23.64
Increased	20	36.36
decreased	22	40
Total	55	100

Based on table 2-8 and table 2-9, since the second quarter of 2008, one third of troubled businesses reduced or stopped hiring, and nearly one fourth of them laid off employees. But the proportions of “laid off employees” and “reduced or stopped hiring” are not very huge. The result is contradictory with table 2-7, which shows that 40% of the businesses have reduced employment scale but no lay off.

The contradiction is understandable. Because the government has many regulations regarding the crisis and laying off people, therefore the surveyed respondents may have concerns when answering the question of “Laid off employee or not”. The data shows that when business is in difficulties, “Laying off employee” physically exists and it is inevitable.

Table 2-8 Employment since the second quarter of 2008

Reduced or stopped hiring	Number of businesses	Proportion (%)
No	12	66.67
Yes	6	33.33
Total	18	100

Table 2-9 Lay off employment since the second quarter of 2008

Laid off employee or not	Number of businesses	Proportion (%)
No	14	77.78
Yes	4	22.22
Total	18	100

### 2.3.3 Lower the Benefit and Salary of the Workers

Table 2-10 shows that 77.78% of the businesses did not reduce salaries, only 22.22% admitted that they had done it during the financial crisis. When businesses are in difficulties, they do reduce employee’s salaries. Table 2-11 show that compared with reducing salaries, reducing bonus and welfare have higher occurring rate. During the crisis, 44.44% of the businesses have chosen reducing employee’s bonus and welfare to cut labor cost.

Table 2-10 Salary change among troubled businesses

Reduced salary?	Number of business	Proportion (%)
No	14	77.78
Yes	4	22.22
Total	18	100

Table 2—11 Bonus and welfare change among troubled businesses

Reduced bonus/welfare?	Number of business	Proportion (%)
No	9	50
Yes	8	44.44
N/A	1	5.56
Total	18	100

Table 2-12 Salary Reduction

Who's salary cut is the biggest?	Number of business	Proportion (%)
Manager	0	0
Professional	1	6.25
Technician/skilled worker	1	6.25
Simple production worker	13	81.25
Non-production worker	1	6.25
Total	16	100

The above reveals that during the crisis, both “reduce salary” and “reduce welfare” have happened, but what kind of employee was affected most? Table 2-12 shows that among 81.25% of the businesses, simple production worker (ordinary worker) has the biggest reduction of income, while technical worker, logistical worker and R&D worker were not affected much, and manager’s income was basically not affected. This means that businesses mainly through lower the ordinary worker’s salary or bonus and welfare to reduce production cost.

#### 2.3.4 Actively Seek Government Support and Apply for Bank Loans

Table 2-13 shows that during crisis, 5.56% of businesses have cash flow problems, which have affected business operation. But in the meantime, businesses have no problem with commercial loans. 88.24% of the businesses expressed that banks are quite easy at commercial loans. This may mean that the government has provided good financial environment for businesses and are supportive. The previous interviews also support this explanation. The business executives expressed that the most benefit that businesses have received were good loan policy and tax discount.

Table 2-13 funding chain conditions of troubled businesses

Is there funding chain/cash flow problem?	Number of business	Proportion (%)
No	7	38.89

Yes	10	55.56
NA	1	5.56
Total	18	100

Table 2-14 Commercial loan conditions for troubled businesses

Is commercial loan difficult to get?	Number of business	Proportion (%)
No	15	88.24
Yes	1	5.88
NA	1	5.88
Total	17	100