

Chinese trade

China's richest county suffers export slump as US tension hits factories

Taiwanese manufacturers in Kunshan are cutting staff and wages and pushing orders abroad over geopolitical risk

Sun Yu in Kunshan MARCH 25 2023

Workers in one of China's busiest export hubs are struggling to get jobs as the global economic outlook weakens and tensions with the US push manufacturers to relocate factories outside China.

The county of Kunshan, 50km from Shanghai in China's Jiangsu province, used to boast wages up to 30 per cent higher than in less-developed interior provinces, thanks to the thousands of contract manufacturers that assembled critical components there.

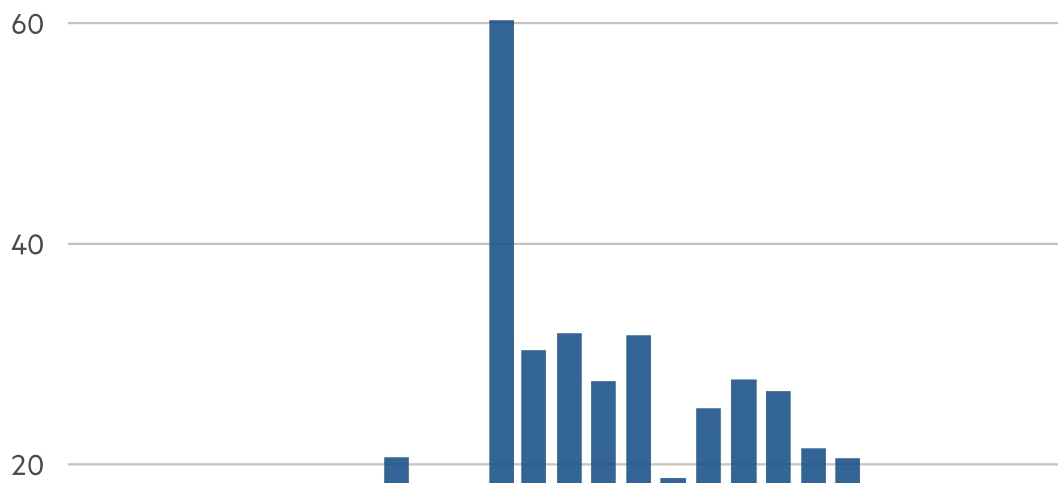
With almost 1mn people, Kunshan has 1,529 export-focused manufacturers from Taiwan alone and is known as [China's](#) richest county.

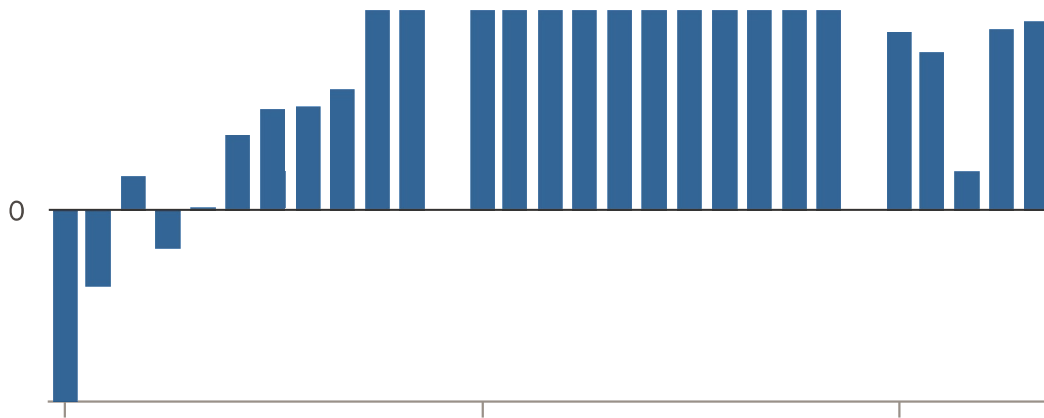
But its companies are cutting back, factory owners and logistics groups said, in response to falling exports, which had driven [China's economic](#) growth through the pandemic. Chinese exports have declined in dollar terms for five straight months since last October as western buyers reduce orders amid high inflation and a gloomy economic outlook.

Kunshan's malaise reflects the challenges faced by China's export-led economy as the country emerges from three years of pandemic restrictions, and as policymakers struggle to find [another growth engine](#) to offset a decline in foreign trade.

China's exports hurt by global consumption slump

Monthly exports, year-on-year growth (%)





Factory headcounts have shrunk and companies have cut hourly wages by up to a third, according to multiple recruiters, while lucrative sign-on bonuses have been scrapped. Many factories have begun turning down older applicants, as declining orders created a labour oversupply, reversing a pandemic-era trend when factories increased hiring to meet strong demand.

The labour market weakness has been exacerbated by Taiwanese manufacturers, the county's biggest employer, relocating production to other countries to limit their exposure to US-China tensions. The Biden administration has sought to [secure supply chains](#) of critical electronics, such as those assembled in Kunshan, on national security grounds, pressing American companies and those of its allies to reshore operations and restrict trade with China.

“Kunshan owes its rise to prominence to the influx of Taiwanese manufacturers,” said Dan Wang, chief China economist at Hang Seng Bank China. “These companies have now become a drag on growth.”

While official surveys have [reported an uptick](#) in economic activity in recent weeks, with manufacturing and exports in local currency terms climbing in the first two months of the year, the recovery has not filtered down to companies and job seekers.

Wages at Taiwanese manufacturers in Kunshan have fallen to less than Rmb19 (\$2.75) an hour from more than Rmb25 a year ago. Instead of paying signing bonuses of up to Rmb10,000 (\$1,450), many factories have begun charging fees to screen applicants.

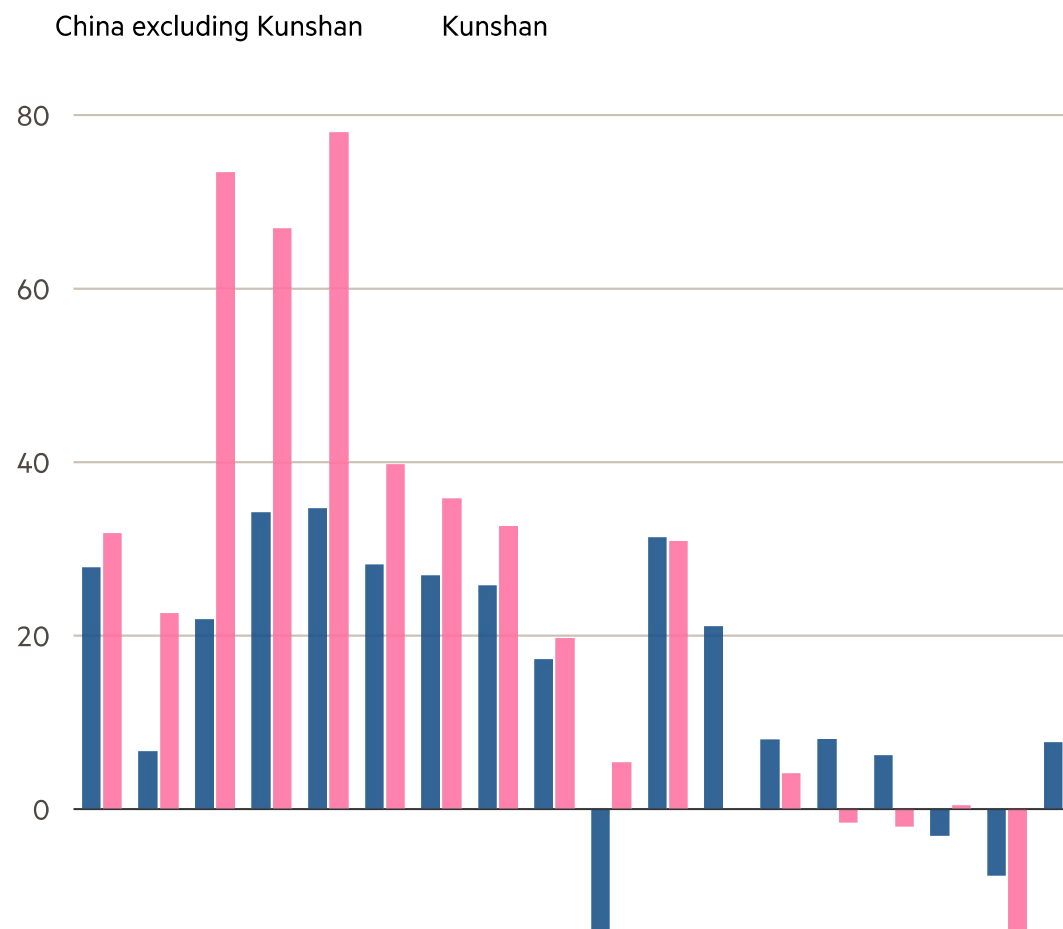
Job openings have also declined as many employers have tightened age limits for unskilled workers. Even in Kunshan, the leading Taiwanese Apple contract

unskilled workers. Foxconn Kunshan, the leading Taiwanese Apple contract manufacturer, now requires applicants for entry-level positions to be under 40 years old, compared with 45 a year ago.

“We don’t have enough positions for so many job seekers,” said Chen Jian, a recruiter who works with contract manufacturers in Kunshan.

Kunshan’s exports growth fell behind other regions in China in recent years

Annual exports, year-on-year growth (%)



James Gao, owner of a Kunshan-based logistics group that works with Foxconn and Pegatron, another Taiwanese Apple contract manufacturer, said shipments had dropped by at least a third in the first quarter of 2023 from a year earlier.

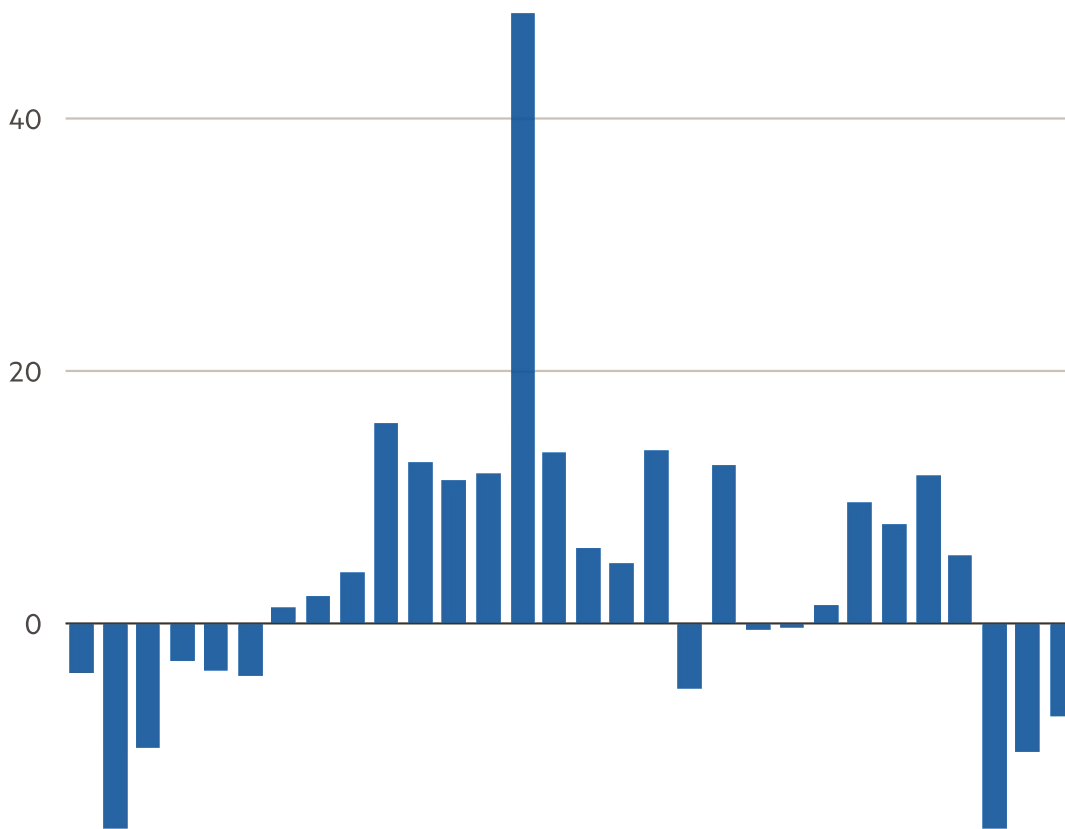
“Our driver once had trouble finding parking space at the Shanghai port,” said Gao. “Now the parking lot is half empty.”

Gao added that some of his Taiwanese factory clients, which mainly serve western consumer electronics brands, had started allocating some orders [to facilities in Vietnam and India](#) as geopolitical tensions incentivised them to diversify.

“If a Kunshan factory could get a \$10bn order from Apple or Dell in the past, now it gets \$8bn and the rest goes to Vietnam,” he said.

Shanghai port's throughput fell in the first two months of 2023

Monthly containers processed by Shanghai port, year-on-year growth (%)



As demand for low-margin manufacturing dwindles, Kunshan has begun courting foreign investors with higher technological demands and focusing on local sales to

spur growth. The strategy has attracted some companies thanks to Kunshan's established supply chain and proximity to Shanghai, China's largest high-end consumer market and hub for tech research and development.

Bernd Reitmeier, the founder of Startup Factory, a Kunshan-based business incubator for European manufacturers, forecast membership to grow this year as companies sought to tap the world's second-largest economy.

"The motivation for our companies to come to China is to localise manufacturing and to sell into the Chinese market . . . As a consequence, they stay in Kunshan," said Reitmeier. "This is different from Taiwanese companies who will move on."

The inflow probably will not be enough to offset the shortfall from Kunshan's contractor manufacturers, however. In January, Chen Liyan, Kunshan's mayor, said the county expected \$1.1bn foreign investment this year, a drop from \$1.7bn in 2022. Chen also set a growth target for foreign trade of zero for 2023, following a 3 per cent contraction last year.

"We need to be more realistic about foreign investment and trade projections" given the shifting economic environment, said a local official who declined to be named. "The days of fast growth are gone for good."

For job seekers, the picture is bleak. Wang Liming, a 40-year-old migrant worker from central Henan province, encountered a shortage in job vacancies and falling wages when he arrived in Kunshan this month.

"I thought the end of zero-Covid would make my life easier," Wang said outside a labour exchange in downtown Kunshan. "That is not the case. I had to take deep pay cuts to stay employed."

Additional reporting by Andy Lin in Hong Kong