

Consumers Base Returns to U.S. After Chinese 'Vacuum'

As China Hikes Up Prices, U.S.-Made Regains Appeal

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OSSINING, New York – With a closing price gap between Chinese and American-made goods, U.S. producers now report a spike in sales due to returning customers. The shift in the market has led the industry to speculate about what significant economic and social causes drive the recent shift away from China and return to domestic production.

It was reported by the Business for Social Responsibility (BSR) that in 2005 “China’s textile and apparel exports amounted to U.S. \$117.5 billion with an annual growth rate of 17.3 percent, accounting for about 24 percent of the global textile and apparel trade.”

Kenneth Koçekian, the owner of International Leather, described this phenomenon as a “vacuum.” “Fifteen years ago China opened its doors,” he said. “There were no labor regulations and you could employ somebody for a bowl of rice and a bed. There was a vacuum in the United States and everything was leaving – the manufacturing facilities were sucked into Asia.”

He indicated that four economic factors have caused the cost of production in China to rise: The currency exchange rate, inflation, mandatory pollution controls and minimum wages.

According to Koçekian, Chinese inflation has progressed at a rate of three to four percent over the last 10 years and of the 500 tanneries that existed in China in 2006, 300 of them have closed their doors due to pollution violations. Because of increasing costs and the diminishing amount of suppliers in China he said we’re seeing a “leveling of the playing field.”

Linda Hwang, a manager in environmental research and development at BSR, substantiated Koçekian’s claims. In an interview, she discussed China’s evolving political climate and how it has affected manufacturing practices and prices.

“We’re generally seeing China become more of a consumer-oriented culture where consumers have increasing access to information as people do in

more developed countries,” Hwang said. A middle class in China is emerging with an increased awareness of social issues including toxic dumping and labor conditions.

“They’re seeing the impact on their own health due to environmental pollutants,” said Hwang. The textile industry, especially dyeing processes, is one of the largest contributors to water pollution in China. A reported 12 percent of the national GDP is made up of textiles coming out of the Guangdong Province alone, and the area must now respond to growing rates of pollutant-related disease and chronic health problems.

“[China] imposed additional limits on how many toxins could be in the water,” she continued. “It’s becoming more like the way the U.S. regulates their water.”

According to news source CHINAdaily, a revised Water Pollution Prevention and Control Law took effect in June that fines enterprise heads and others directly responsible for causing severe water pollution incidents up to half of their income of the previous year.

As a result of such stricter laws on pollution, many Chinese mills have been forced to close. “Just in the Guangdong Province there is probably something like 70,000 textile factories, and about 2,000 of those closed over the last year,” said Hwang. “In many cases if the law requires that a factory has to put up the resources to construct an on-site water treatment plant, a lot of factories can’t afford the cost so they just shut down.”

For remaining Chinese textile factories, rising labor wages and expensive waste management systems have taken their toll on profit margins. In addition to increased fuel costs, these factors have caused a swollen export price. The price gap between Chinese made products and domestic products is lessening, forcing customers to reexamine their purchasing needs.

Although increased focus has been placed on working and living conditions in China, many industry officials remain appalled by manufacturing practices in China. With a soft residential market and a growing desire for eco and social “friendly” products in the hospitality sector, many customers are forgoing the bargain in exchange for textiles with a clean conscience.

“Last year I personally went to China,” said Brian Rosenstein, director of operations at finishing company TSG. “They were piling fabrics on the floor and putting them into the machines. The truck was inside of the building and people were throwing fabric rolls right into the back of that truck. I couldn’t go

back there because of the fumes.”

“There’s not a doubt in my mind,” he continued, “that if we wanted to launch our Balance™ Program, we would not be able to do that in China. There is no way that MBDC would certify us if we worked out of any of those plants for Cradle to Cradle.”

According to the Cradle to Cradle Certification Program Version 2 as released in 2007, testing for heavy metals is “required for all materials coming from regions of the world showing to have heavy metal contamination issues or concerns.”

Cradle to Cradle certification also requires applicants to supply written statements that indicate “fair labor practices, corporate and personal ethics, customer service and local community.” Even with reportedly improving working conditions, China’s labor practices are a far cry from American standards of ethics.

“You wouldn’t believe how they work in China,” Roma owner Abner said at Showtime. Indicating to his booth, he said: “In a space like this you’d see 20 people working in dim lighting and with no air conditioning. They work hard and fast. You can’t compare it to America.”

“There are some lines that will only put eco-friendly domestic products in their brands,” said David Silverstein, former vice president of operations at Heirloom Decorative. Having previously manufactured solely out of China, Heirloom began working with a U.S. mill for its eco-friendly line, which uses recycled cotton yarns and vegetable dyes.

“Green” has become more than a consumer demand-oriented movement; it has infiltrated the international political sphere.

In June 2007, the European Union pledged to uphold a set of regulations under the REACH agreement (Registration, Evaluation, Authorization, and Restriction of Chemical substances). REACH requires manufacturers and importers to report on the properties of their products’ chemical properties and register this information with the European Chemicals Agency in Helsinki.

According to officials at DeBall, a Canadian velvet manufacturer, Canada recently enacted a law calling for the heavy fining on importers bringing toxic materials into the country. The law places responsibility on the importer to ensure the safety of the product. As recent findings have underscored the inconsistency and danger of many Chinese products, importers are no longer

buying indiscriminately to maximize their dollar.

Laws aside, domestic producers are already noticing a significant rise in sales. The consumer base is returning to the U.S. with horror stories about dealing with Chinese manufacturing facilities. And because major American competitors folded after the massive outsource of manufacturing, remaining mills are reaping the benefits of returning customers.

“We’re one of the last velvet suppliers in the U.S. and we’ve definitely seen an increase,” said JB Martin’s Michael Benjamin. “What we find the most is that a lot of customers are coming back to us because they’re not getting the quality they expected, especially in velvet. We’ve been dyeing for 100 years and they’re seeing the difference.”

“We have one-piece minimums, and 300 yard minimums for custom colors,” continued Benjamin. “We hear that if you want to buy from China, you have to buy 500 yards per color. Customers had to deal with the frustration of waiting up to 16 weeks to receive their orders and then not getting what they expected.”

At a dollar or two more a yard, shipping periods of 4-6 weeks and the guarantee of quality, Benjamin said that customers have realized the advantages of buying from the U.S.

Rocco Savone, senior vice president of sales at Sunbury, said that Sunbury’s business has gone up due to the exclusivity of Sunbury’s product as well as the 30 percent increase in oil cost over the last six months.

“Customers are realizing that when production stops because [an imported product] is off, there is a price attached to that,” he said. “Customers are now coming back to Sunbury and saying that they understand cost is a bit more but we give them the quality and the service that creates a good partnership.”

“We give our customers exclusivity,” he continued. “The thing about China is they make a lot of one thing. We make smaller quantities of more things.”

Savone said that Sunbury’s business over the last four years has been the most the company has seen in the last 54 years due to the diversity of their product portfolio.

Debbye Lustig, vice president of design and merchandising of Cone Decorative, also reported an increase of sales due to returning customers.

“We’ve found that while certainly we are importing some goods, that shorter supply chains and dependable quality from the U.S. has become increasingly important to our customer base,” said Lustig. “So we supply the U.S. market out of here, and we produce some goods out of our manufacturing base in China for all of pan-Asia.” Lustig emphasized that the Chinese mill Cone uses is 100 percent owned by Cone Decorative with no Asian partners.

While Lustig agreed that sales had been negatively affected by the consumer shift to China, she said that sales have recently started to equal out.

She also relayed some of the problems customers had experienced abroad. “Much of our customer base prefers American goods because of the dependability and short lead times,” she said. “Customers were disappointed with Chinese products because their goods would get stuck overseas or in customs or the quality was not what they expected. Goods would end up stuck on the shelf.”

“There is a speed to market that you can’t duplicate overseas,” Lustig continued. “I’d say specifically in residential furniture with business being soft, that design excellence is really overcoming a somewhat reduced price,” she said. “We seem to be gaining market share quite significantly as a result. I’d say that it’s been happening over the last year and a half.”

U.S.-made products often guarantee standard shipping times and stable prices. Moreover, these products are oftentimes consistent in quality and style and offer certain exclusivity. All of this comes with the added reassurance that domestic manufacturing practices adhere by government and industrial regulations to ensure the health of the environment and its inhabitants. This package value, as customers are quickly learning, exceeds the already-weakening bargain of buying from China. “Many of them have experienced what the true cost of doing business overseas is and the true value of American goods,” concluded Lustig. “It’s their story to tell.”