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Shuttered Chinese factories have little room to clean up act

Greg Knowler, Europe Editor | Oct 02, 2017 12:04PM EDT

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China's anti-pollution drive is continuing.

China's low cost manufacturers are fiercely competitive and exist on wafer thin profit margins with little room to invest in more environmentally friendly production practices, placing them directly in the path of [Beijing's increasingly vigorous anti-pollution](#) (https://www.joc.com/international-logistics/chinas-factory-closures-may-be-permanent-warns-supply-chain-expert_20170926.html) inspectors.

Manufacturers have had several years to comply with the environmental regulations, but Renaud Anjoran, president of the Shenzhen-based China Manufacturing Consultants, said they appeared unsure of how to be green and stay in business.

"Half of the problem is China-based manufacturers are not aware of all the ways they can reduce pollution and save money at the same time," he told JOC.com. Still, factories have little option but to comply, with really just one solution. "An assembly factory should simply dump its riskier suppliers and pay a premium to work with environmentally responsible businesses," Anjoran said.

An estimated 18,000 factories and their suppliers from North China to Zhejiang Province just south of Shanghai have been closed down so far as Beijing stepped up enforcement of regulations enacted in 2013. Once the Golden Week holidays are over inspectors will be heading south and west to conduct audits of factories in the manufacturing heartland of Chongqing and the factory clusters in Guangdong Province's Guangzhou and the Pearl River Delta.



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The factory clean up campaign is placing at risk any supplier involved in the kind of production that generates pollution, and many factories fall between these vast parameters. Anjoran said all supply chains involved in polluting activities, be they Tier 1, Tier 2, or Tier 3 suppliers, were at risk of closure in the nationwide cleanup campaign.

"Many metal auto parts necessitate plating, anodizing, e-coating, or another finishing — and typically very polluting — treatment," he said. "This is often done at a sub-contractor chosen by the main manufacturer that might do machining and assembly operations."

Anjoran said the garment sector was also being targeted as virtually all garments are made out of fabric that has been dyed. Because the waste water generated by factories was released untreated, in some areas all fabric mills have been shut down.

Home appliance makers were also feeling the heat as components used in manufacturing were powder coated, a dry finishing process that is a significant pollutant. "In maybe 60 percent of cases, this is done in-house by the main manufacturer, so the risk is substantially higher. Last year many component suppliers were closed in Shenzhen, and the major appliance brands were strongly impacted," Anjoran said.

It is no secret that Beijing has long wanted its producers to move up the value chain and lead the country away from the massive pollution that has been a byproduct of China's rapid economic growth. After years of poor enforcement, China's Ministry of Environmental Protection in June stopped treading lightly and began to shut down thousands of factories in Northern China that did not comply with state emissions regulations.

The factory closures are spread across China's main manufacturing areas, from Jilin Province in the north to Zhejiang Province south of Shanghai, with increasing focus on the giant inland cities of Chongqing and Chengdu.

The widespread closure of polluting factories is being seen by those in the supply chain as a permanent move with the intention of pushing manufacturers of low value goods out of China, said Gary Huang, Hancock International director and co-chairman of the AmCham Shanghai Supply Chain Committee.

"In fact, the sentiment is that these heavy polluters mainly make low value items and China is willing to allow these industries to move out of China and to India, Cambodia, etc.," he said. "We are entering a holiday in the beginning of October. I believe I'll have a better idea of [the] South China impact around mid-October."

Air pollution in China has in recent years become a huge political issue and there are serious public health concerns around water with most of the country's waterways being heavily polluted. Although there has been increasing pressure for provinces to address pollution, the measures really began to have teeth in the middle of the year when Beijing went over the heads of local government to circumvent vested interests.

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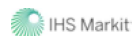
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