



## Why A Chinese Clothes Maker Rejects Cheap Labor And Goes Green

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The rain drips down as I stand surveying a muddy field in the outskirts of Guilin in southwest China. It's a place where brick makers used and burned all the surface soil, destroying much of the land and making it almost unusable.

But, now, after years of abandonment, activity is again buzzing at the field. Bulldozers whizz around as construction workers busy themselves laying the foundations for a waste-free, environmentally unique clothing factory complex.

The total investment of 2 billion yuan (\$315 million) by Hong Kong-based Esquel Group, one of the world's largest producers of cotton shirts for global brands, not only symbolizes Beijing's dream of lifting the country up the production ladder, it's also a sign of how the textile industry – notorious for exploiting cheap labor and polluting water – can develop in a sustainable way.

“Our industry is facing a lot of pressure, and many manufacturers think that sustainability is just about image,” said the group's chair Marjorie Yang, during a conference in Guilin. “But my father, who founded the company, taught me that when you run a company you have to take responsibility for the environment and society.”

For years, the textile industry in China has struggled with increased wages, higher energy bills, mounting logistics costs and increased government regulations, which has put pressure on competitiveness and profitability.

For most manufacturers, the answer has been to move production to countries with lower labor costs and more lax regulations, such as Vietnam and Bangladesh. Others have taken even more

desperate measures, using illegal factories and faking environmental and labor certificates to cut costs.

That's partly why Esquel's decision to continue to invest in China and increase output capacity with automated production lines makes for an interesting alternative to the trend.

The company's CEO John Cheh told me it is not necessarily a bad thing that wages keep climbing, as long as it translates into improved skills, increased efficiency and more consumption power among Chinese people.

In an interview during the Integral Conversation event, Cheh said Esquel had actually increased wages, which today are about 150 percent above the minimum wage in the local area, including overtime compensation.

"If you only keep on moving to lower cost countries, that's not necessarily good. It means you're not transforming, you're not upgrading," he said. "We have no plans of moving manufacturing out of China."

Established in 1978, the company produces more than 100 million shirts a year for brands like Nike NKE +2.40%, Zara , Ralph Lauren RL +0.00% and Tommy Hilfiger as well as high-end domestic brands in China. It has also launched its own brand, PYE.

Although the company has factories in Mauritius, Malaysia, Sri Lanka and Vietnam, about two-thirds of its final products are made in China.

Part of the key is that the firm is running a complete value chain in China, from cotton growing to spinning, weaving, dyeing, sewing, and retailing. And instead of chasing after cheap labor, Esquel has optimized value by focusing on so-called deskilled automation, where less talent and training is needed to operate each machine – as well as fewer staff. In fact, one worker can sometimes operate two or even three machines simultaneously.

"The issue is not labor cost, but unit labor cost," Cheh explained. "If the operator makes double the money but also doubles the output, the unit cost goes down. I benefit, they benefit. This is the model we pursue."

During a factory visit at the firm's current plant in Guilin, I walk through long rows of workers operating modern cutting and sewing machines. Ironically, although Guilin is famous for its scenic beauty and clean environment, the air inside the factory – where some 1,100 people work – is considerably more cool and fresh than the air outside.

One lady, dressed in a purple headscarf and red polo shirt, is stitching buttons on shirts using three machines at the same time. By another station, a group of women are ironing and neatly folding and packaging shirts, with barely any steam rising out from their ironing machines. By a large table, a robotic arm is cutting 50 layers of a textile into a variety of shirt parts. A journalist colleague, reporting for fashion industry media, remarks that the factory is “very advanced” and well organized.

The strategy seems to pay off. Despite Esquel’s number of garment workers being cut by almost a quarter over the last few years, output has actually increased. Energy and water consumption is down by half compared with a decade ago. This year turnover is expected to grow about 7 percent to \$1.5 billion, Cheh said.

Back in the muddy field, the workers are constructing a new factory which will push Esquel’s green credentials to a different level. With a total area of 550,000 square meters, it aims to construct a state of the art factory – with zero waste.

At the construction site a large screen displays architectural slides of what the area will look like in a few years time. If all goes to plan, the area will look more like a leisure park or museum than a factory complex.

Organic fruits and vegetables will grow on the roofs (for the workers to consume). A canteen area will be situated next to a large lake filled with fish and surrounded by birds. People will be able to walk along small paths among the trees. The buildings are designed with a futuristic tranquil elegance, with traditional Chinese style roofs and bamboo decorations. Large windows will let natural light into the production halls and give a view of the garden for the staff to enjoy while working.

“This is not a normal factory,” a company guide said as we visit the site.

However, more dirty parts of the production, such as dyeing, will be moved to other parts of the country. This is a sensitive topic. Chinese textile suppliers have come under increasing pressure from both their clients and Beijing to substantially cut down on their wastewater pollution.

Esquel says it’s trying to address such problems with innovative technology – some still being researched – and water recycling programs. Those changes come with a big price tag. But, again, it’s something Cheh sees the benefit of. That new technology has the potential to make the company more attractive to apparel brands that are focused on reducing their environmental footprint.

**Full story :**

<http://www.forbes.com/sites/jnylander/2015/11/10/why-a-chinese-clothes-maker-rejects-cheap-labor-and-goes-green/>