But other sources of Chinese inflation are domestic, and so can be avoided by importing from elsewhere.

The rate at which idle hands in rural China relocate to become cheap and busy hands in urban centres is slowing.

This is intensifying competition between Chinese factories for workers. The likely result, according to economists, is annual wage rises of 15-20 per cent in coming years.

Another domestic source of inflation is China's currency.

Unlike in Australia, where markets set the value of the currency, the Chinese government sets the value of the yuan. The United States accuses China of setting it low to make its exports irresistibly cheap to foreigners.

Under American pressure, China has let the yuan rise in value by 3.9 per cent against the US dollar since last June. But because inflation is much higher in China than America, the inflation-adjusted or "real" rise is closer to 10 per cent.

Chinese exporters are bracing for a knock-on effect on sales.

Sixty per cent anticipate a fall this year, according to a recent survey by Global Sources, which is not surprising given most are coping with the yuan rise by increasing prices.

China's loss, however, may be its neighbours' gain.

Consider Vietnam. A Vietnamese factory worker earns about $US100 a month, which is more than 50 per cent less than a Chinese counterpart. Electricity prices are also 40 per cent lower in Vietnam compared with China.

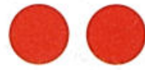
Some of the world's biggest companies are moving south. Last year, American computer chip maker Intel opened a $US1 billion assembly plant in Vietnam. In March, Finnish mobile phone maker Nokia revealed it would open its own plant in the capital, Hanoi, in 2012.

"We have some short-term issues, especially in manufacturing where we have power cuts," says Matthias Duhn, executive director of the European Chamber of Commerce in Vietnam, after the Nokia announcement.

"We have the usual education, infrastructure and bureaucracy issues but that should not distract investors from the medium- and long-term prospects, which are still good."

Of course, the medium and long term is all very well for global companies such as Intel and Nokia with plants in several countries but for smaller Australian companies with less diversified supply chains, quality, power and other short-term issues are highly disruptive.

Which is one reason another sourcing expert, Matt Edwards, is telling clients that "even with prices slowly and constantly increasing, China is the place to go".



If those countries can start to get their act together and become what China is now, it keeps up the pressure on China and stops them thinking they have a monopoly over the world's manufacturing

Matt Edwards, sourcing expert

Edwards, the managing director of Silk Road Consultants, says the two main alternatives for clothing, homeware and other low-end manufacturing, India and Bangladesh, are "where China was five year ago. The prices are cheaper but the quality is a lot less."

And low quality is not something Australian shoppers will tolerate, says Geelong Brush Company general manager Ross Durran, even when the item is a broom costing under $10.

"They might have cheap labour in a countr[y] like India but it doesn't mean they can delive[r] the quality the Australian market demands," Durran says.

Still, Edwards looks forward to India and other countries lifting their standards to rival China's. "If those countries can start to get th[eir] act together and become what China is now," [he] says, "it keeps up the pressure on China and stops them thinking they have a monopoly ov[er] the world's manufacturing."

Indeed, the danger of over-reliance on a sin[gle] country is another reason, along with price, t[o] diversify, GRA's McNabb says. This was tragically highlighted by the Japanese earthquake, which disrupted the supply chain of several global companies such as American plane maker Boeing, whose forthcoming 787 Dreamliner relies heavily on Japanese supplie[rs] for parts.

"We are recommending diversification to Australian and other global clients to reduce supplier risk as well as a hedge against inflation," he says. "Competitors to China hav[e] taken some time to develop but are now becoming increasingly competitive in terms of both cost, repeatable quality and supply dependability." BRW

ASIAN OPTIONS

VIETNAM

Pros: Low wages and energy costs.

Cons: Volatile currency, uncertain power supply.

Value of merchandise imports to Australia (2009-10): $3.1 billion

Major merchandise imports to Australia: Crude petroleum; furniture, mattresses and cushions; fruits and nuts; footwear.

THAILAND

Pros: Low wages. Rich in natural resources and fertile land.

Cons: Political instability.

Value of merchandise imports to Australia (2009-10): $12.4 billion.

Major merchandise imports to Australia: Goods vehicles; gold; pumps and parts; passenger motor vehicles; heating and cooling equipment.

INDIA

Pros: Largest low-cost workforce. Plenty of engineers.

Cons: Time difference to Australia.

Value of merchandise imports to Australia (2009-10): $1.8 billion.

Major merchandise imports to Australia: Pearls and gems; rotating electric plant and parts; jewellery; medicaments (including veterinary); made-up textile articles.

PHILIPPINES

Pros: Large English-speaking workforce.

Cons: Political instability.

Value of merchandise imports to Australia (2009-10): $0.5 billion

Major merchandise imports to Australia: Electric machinery; radio broadcast receivers; telecom equipme[nt]; iron ore and concentrates.

CHINA

Pros: High quality. Advanced export infrastructure.

Cons: Rising wage, land and other costs.

Value of merchandise imports to Australia (2009-10): $36.4 billion

Major imports to Australia: Computers; telecom equipment; prams, toys, games and sporting goods; furniture, mattresses and cushions; monitors, projectors and televisions.

Sources: GRA Consulting, Department of Foreign Affairs and Trade