

As the “world’s factory”, China holds the advantage over the next 10 years



In recent years, by replacing Japan as the second largest trading country and becoming the world’s second biggest industrial manufacturing country after the United States, China has gradually established its international status as the “world’s factory”. However, compared with the situation 10 years ago, the advantage in China’s labor costs have significantly weakened, part of the manufacturing industry is being transferred to South-east Asia, and developed countries are accelerating the processes of re-industrialization. In these circumstances, China’s manufacturing industry is facing new challenges. In case there is no change in the economic globalization trend, whether China has the ability to seize new strategic opportunities or foster new international competitive advantages will become very significant.

Vietnam has replaced China as the biggest Nike shoe producer

Compared with some neighboring countries, China's advantage in labor costs have gradually declined. According to data released by the Economist Intelligence Unit (EIU), China's labor costs have increased four times in the last 10 years, and the labor cost per hour has increased from \$ 0.6 in 2000 to \$ 2.9 in 2011, which was 1.5 times that of Thailand, 2.5 times that of the Philippines, and 3.5 times that of Indonesia. Resource costs represented by land also rose sharply; in late 2011, the overall land price in the nation's major monitored cities was 3,049yuan per square meter, which was 2.4 times that at the end of 2005.

In this context, the current flow of the world's manufacturing industry has two new trends: as the United States advocates "re-industrialization" and "revitalization of the manufacturing sector", some manufacturing industries have moved back to the local market; and parts of the manufacturing industry are being transferred to the ASEAN countries that have lower labor costs. For example, in 2000, 40% of Nike shoes were produced in China and just 13% in Vietnam; in 2009, each country produced 36%; in 2010, Vietnam replaced China as the largest Nike shoe producer in the world.

With China's labor and production costs rising, the competitiveness of the manufacturing sectors in ASEAN countries continues to increase, and more international capital will flow to Southeast Asia. According to the World Investment Report 2012, nearly 117 billion dollars of foreign direct investment flowed to Southeast Asia, an increase of 26% year on year; while in the same period, China only grew by 8%.

Absolute advantage of human resource

The phenomenon of manufacturing returning to the United States does exist, and it is occurring mainly in high-end technology processes in high-end industries. Since the number of low-income families has declined because of education, the overall level of America's human capital has presented a downward trend, which reveals the characteristic "the high and low ends expand, and the intermediate level atrophies". In the American industrial structure and labor market, which shows the disadvantage of medium-skilled labor, it is nearly impossible for the United States to accept large-scale returns in the manufacturing industry.

In other developing countries it is difficult for this condition as the "world's factory" to exist. Firstly, there is no replacement that can undertake such large-scale transfers. Secondly, China's improving labor quality has become a new advantage for economic competition.

Looking at the aggregates of human resources, China still has an absolute advantage in the next 10 years. Especially in the central and western regions, labor costs will be at a low level for longer relative to the eastern region, and there will be a large potential for a surplus of labor. The traditional advantage of China's labor force will continue for a long time in these areas. Therefore, a certain share of labor-intensive manufacturing industry will be transferred to other developing countries, but as the "world's factory", China's status cannot be replaced.

Promote the updating of the “world’s factory”

Considering the changes in internal and external conditions, China should actively create new international competitive advantages, and give new meaning to the “world’s factory”. First of all, China should create a policy environment for the accumulation of human capital: for the supply of education and training, the government should increase public investment, and reduce the proportion of education (training) expenditure from families and individuals; through constructing a labor market system, the government should overcome market failure, improve the return of human capital, and guide families and individuals in human capital investing; the government should create a policy environment for improving labor productivity.

Secondly, China should improve enterprises’ technological innovation abilities and R&D capability for products, and actively participate in the formulation of international standards. China should encourage enterprises to suit measures to local conditions, and cultivate new brands for products on the basis of technical innovation, to improve brand competitiveness in products exported.

In addition, there are six ways and measures that cannot be ignored in the process of cultivating and creating China’s new advantages for international product competitiveness: enhance economic detailed management levels and improve product quality and value add; cultivate new business modes, and centralize resources to develop production and operation through the division of labor; play to the advantages of e-commerce, and reduce transaction costs; build a new platform for international business, and create more international commodity trading patterns such as Yiwu; encourage enterprises to go out and establish international marketing channels, and enter local markets through mergers and acquisitions; create specialized divisions of labor between inland and coastal areas in the process of industrial transfer, and continuously play the low cost labor advantage.

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