China’s Processing Trade and Labor Change

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China
Content

- Development of processing trade in China
- Changing situation of labor in processing trade in China
- Implications
What is processing trade?

- Processing trade is refer to the re-export of processed products with imported contents which are exempted from import taxes (tariff and VAT).
- China began processing trade in later 1970s

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Processing trade develops rapidly

- The total volume of processing trade (im+ex) increased 56 times during 1981-2012, average annual growth rate of 14%.

Source: MOFCOM

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Processing trade play important role in China’s foreign trade

- The share of Processing Trade is 35% in China’s total trade, 42% in export and 26% of import, respectively.

Source: MOFCOM

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Processing trade is the main source of trade surplus

- 1981-2012, China’s total trade surplus is 1851.2 billion USD, surplus of processing trade is 2730.9 billion USD, taking 148% of the total.

Source: MOFCOM
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Low cost labor is key factor

- Cheap labor in China has been the most attractive factor for export-oriented labor-intensive processing investment.
- The quality of labor in China is also better than many developing economies.
- Many foreign investors take China as a low cost export base of labor intensive processing.
Education distribution of workers in Processing Trade

Source: DRC, 2014

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Challenge 1: Labor cost keeps increasing rapidly

- 1999-2009, average wage urban workers increased 13.1% annually, which is much higher than other developing economies.
Growing cost can be offset by productivity increase?

Source: Wind

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## Labor cost comparison: China = 1

<table>
<thead>
<tr>
<th></th>
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</tr>
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<tbody>
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<td>1.7</td>
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<tr>
<td>Thailand</td>
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<td>3.5</td>
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<tr>
<td>Russia</td>
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<td>0.7</td>
<td>1.7</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Source: CEIC. Economist

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Challenge 2: High resignation ratio

- According to DRC’s investigation, the average resignation ratio of processing trade companies is 60.8%, with the highest of 500%.

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Higher value-added companies have lower resignation ratio

Source: DRC

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The younger, the less stable

Source: DRC

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High resignation ratio have mixed impacts on processing trade

- The positive impact: good for dissemination of know-how among companies
- The negative impacts: less accumulation of techniques of workers, and impede training by companies

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Causes of labor market changes

- Result of economic development: GDP per capita from 148 USD in 1979 to 6700 USD in 2013
- Lewis turning point: the total labor supply reached summit in 2012
- Tremendous change in labor supply: university enrollment increased from 1.08 million in 2000 to more than 7 million in 2013
New advantages emerging

- Population bonus change from quantity to quality: 7.27 million university graduates in 2014. Human resources combine with other emerging advantages:
  - Rapidly expanding domestic market
  - Good infrastructure
  - Industrial clusters

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Foreign investors will upgrade their activities in China adapting to changing labor situation

<table>
<thead>
<tr>
<th>题目</th>
<th>所有企业</th>
<th>日韩企业</th>
<th>美国企业</th>
<th>欧盟企业</th>
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<tbody>
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<td>大力开拓本地市场</td>
<td>49.1%</td>
<td>46.0%</td>
<td>54.3%</td>
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<td>提升在华产业的技术水平</td>
<td>46.8%</td>
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<td>扩大对制造业的投资</td>
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<td>42.5%</td>
<td>44.3%</td>
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<tr>
<td>以中国为基地开拓国际市场</td>
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<td>27.4%</td>
<td>40.0%</td>
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<td>在华开展研发活动</td>
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<td>21.2%</td>
<td>34.3%</td>
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<td>与本地企业开展合作</td>
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<td>29.2%</td>
<td>32.9%</td>
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<tr>
<td>加大对配套产业的投资</td>
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<td>22.9%</td>
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</tr>
<tr>
<td>在华开展区域地区总部活动</td>
<td>16.0%</td>
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<td>加大本地融资</td>
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<td>7.1%</td>
<td>15.7%</td>
<td>16.3%</td>
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<tr>
<td>加大在华服务活动的投资</td>
<td>15.8%</td>
<td>7.1%</td>
<td>21.4%</td>
<td>32.6%</td>
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<tr>
<td>逐渐退出生产制造领域，靠技术专利授权或品牌授权盈利</td>
<td>2.0%</td>
<td>2.7%</td>
<td>1.4%</td>
<td>0.0%</td>
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<tr>
<td>其他</td>
<td>0.8%</td>
<td>0.0%</td>
<td>2.9%</td>
<td>0.0%</td>
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</tbody>
</table>

Source: DRC

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Implications

- Although China has strong international competitiveness in labor intensive products, upgrading on global value chain is inevitable with the change of labor comparative advantage.
- There are many advantages for upgrading
- Correct strategy and effective measures are needed for a successful transform.

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Thanks!